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Report on the fourth session (8-12 April 2002)

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Chapter I
Main findings and recommendations

A. Aid effectiveness: focus on Africa

1. Aid to the African region has declined sharply in recent years. Moreover, the region continues to lag behind in human and social capabilities, while facing both old and new challenges in the form of persisting poverty and rising inequality, a human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) pandemic and a proliferation of regional conflicts. Despite these difficulties, the share of total official development assistance (ODA) that flows to the least developed countries does not provide an encouraging story. Aid from Organisation for Economic Cooperation and Development/Developed Assistance Committee (OECD/DAC) countries to least developed countries declined from roughly 37 per cent of the donors' total aid in 1989-1990 to 30 per cent of total assistance in 1999-2000.[1] There is a pressing need to rebuild the constituency for aid to the region. The overall levelling off of aid flows since 1990 can be attributed to the end of the cold war, a period when much of so-called aid was provided less with development in mind than with the intent of securing political allegiance. A second factor has been the dwindling involvement and interest of ex-colonial powers in the development process of their former colonies. A third reason has been the mounting pressure on the national budgets of donors and a fourth reason was donors' disappointment with recipients' performance and concern that their assistance was not achieving its objectives.

2. Together with the decline in ODA to least developed countries, there has been a shift in the purposes for which ODA to these economies was committed: the share of ODA commitments designated for social infrastructure and services has increased significantly, while commitments for economic infrastructure and services, productive infrastructure and multisectoral projects have fallen. Another trend over the course of the 1990s has been the increase in emergency aid as well as grants in the form of debt forgiveness. The fact that aid receipts have been volatile and unreliable has hampered its effectiveness, while the dependence of many developing countries on volatile aid receipts, in conjunction with the prevalence of exogenous shocks, has increased the vulnerability of many of the poorest economies.

3. **The Committee stresses that the primary goal for aid and assistance should be capacity-building in recipient countries, that is to say, the creation and development of human and social capabilities that would foster autonomous development, innovation and change.** In light of this overarching objective, aid priorities should be decided upon, in partnership, by both donor and recipient countries in the context of development strategies fully owned and designed by recipient countries themselves. Since aid works better in a good and stable policy environment, improvements in governance and institutions of developing countries tend to improve services and contribute to aid effectiveness. A holistic approach that captures synergies across sectors, agencies and programmes also tends to enhance aid effectiveness. Finally, since an active civil society improves public services, a **participatory approach** to project design and service delivery could yield significant improvements, in contrast to top-down technocratic approaches. Effective aid complements private investment.

4. As regards donor countries, the Committee feels that a number of priorities could make aid more effective, including better targeting to low-income countries, active support to Governments in post-conflict situations, aid activities that are country-specific and integrated into domestic development priorities and the active participation of recipients in the design and management of aid programmes. In the case of Africa, conflict and post-conflict situations in many countries, as well as the HIV/AIDS pandemic, call for large additional transfers of resources, beyond the general requirements for poverty reduction and accelerated growth.

5. The Committee stresses that ownership is essential, since countries bear the primary responsibility for their own development. The Committee notes that the Poverty Reduction Strategy Paper (PRSP), with its focus on shared poverty goals, policy dialogue, and broad participation by civil society, could be viewed as a first attempt towards the development of effective partnerships. Important institutional innovations are also embodied in new initiatives, including the New Partnership for Africa's Development (NEPAD) and the Tokyo International Conference on African Development (TICAD).[2]

Regional cooperation, such as that being promoted through NEPAD, in the areas of transport infrastructure, power generation and distribution, telecommunications, applied agricultural and health research, education and health, and security, is critical to African development. **Based on the positive experience of NEPAD, the Committee urges African countries at the national and regional levels to explore innovative approaches to creating *African development and aid partnerships* with all relevant stakeholders. In this context, the Committee also proposes the creation of an *African development and aid portal* (ADAP) by the United Nations family (for example, the United Nations Development Programme (UNDP) in concert with the World Bank) to provide a gateway to all development and aid projects in Africa, including those of non-governmental organizations.**

B. Human and social capabilities for development in a knowledge-based global society

6. The enhancement of human and social capabilities is essential for the development process. As development progresses, new challenges and threats present themselves, which call for new and dynamic approaches. Two pivotal and interrelated areas for human resource development are health and education. While there has been overall progress in these two areas, all developing regions have not performed equally. In particular, sub-Saharan Africa lags behind both in educational performance at all levels and in health conditions. **The Committee reaffirms that developing countries, especially those in Africa, need to reappropriate their development strategies, including human development, in order to be able to participate fully in the contemporary knowledge-based global society.**[3]

7. Globalization brings about challenges and opportunities. However, if the challenges are not met, the opportunities cannot be seized and new threats appear. When human and social capabilities are not fully realized, poverty and inequality may be exacerbated. The goals and structure of both educational and health systems have shifted substantially, requiring the redesign of health and educational policies and institutions. For instance, in the past, educational objectives were narrowly and statically linked to production requirements. Today, basic literacy is viewed as a necessary but not a sufficient condition for development. Individuals have to build their capacity to have access to the plethora of information that is currently available, to use it effectively in relation to their own needs and to develop analytical, synthetic and communication skills; more importantly, they have to build learning capacities throughout their lifetime. Furthermore, individuals need to build skills that would allow them to adapt smoothly to changing labour conditions. Finally, they need to have access to training and retraining services so that they can move freely between jobs and locations.

8. In order to better meet new challenges, **the Committee recommends that developing countries: (a) develop and capitalize on synergies between health and education; (b) secure universal access to integrated services in health and education; (c) ensure high quality and flexibility in educational and health systems; (d) build innovative institutional frameworks; (e) reinforce social capabilities; (f) harness the opportunities that new tools, such as information and communication technologies (ICT), bring about; (g) design innovative financing schemes; and (h) form local and global partnerships to face these new challenges.**

9. **The Committee urges the United Nations system to coordinate its activities in order to support and guide countries in these tasks, and to promote their financing based on pledges made during the World Summit for Social Development in Copenhagen in 1995 and at the International Conference on Financing for Development in Monterrey, Mexico, in 2002.** The Committee further welcomes the initiative of the Secretary-General to set up a special fund to combat the spread of HIV/AIDS.[4]

C. Review of the list of least developed countries

10. Drawing on the work of the Secretariat and the Expert Group Meeting on the methodology for the identification of the least developed countries, and on the basis of its own further deliberations, the Committee formulated a number of recommendations, in response to the request of the Economic and Social Council in resolution 2001/43 for (a) a revision of the

criteria to be used in the triennial review of the list of the least developed countries, scheduled for 2003; (b) a re-examination of the Committee's proposal to graduate Maldives from the list; and (c) the importance of ensuring a smooth transition from least developed country status for graduating countries.

11. **The Committee recommends that, for the sake of clarity and consistency, gross national income (GNI) per capita replace gross domestic product (GDP) per capita in current criteria for graduation.** Both for inclusion and for graduation, the triennial review would thus rely on the GNI per capita data used in the World Bank Atlas. Since the Augmented Physical Quality of Life Index (APQLI) designation does not adequately reflect what this indicator is intended to capture — namely, the level of human capital — it is also proposed that this indicator be renamed the Human Assets Index (HAI). Since primary schooling is reflected in the adult literacy rate, **the Committee further recommends dropping primary school enrolment from the APQLI/HAI and focusing on the gross secondary enrolment ratio as a better indicator of the level of education.**

12. **The Committee recommends that a new country profile for Maldives be prepared by the United Nations Conference on Trade and Development (UNCTAD).** Such a country profile should also consider the implications for Maldives of replacing GDP per capita by GNI per capita in the next triennial review of the list. In addition, the Committee stresses the importance of determining the implications of the graduation of Maldives from least developed country status, in the light of new and additional information from multilateral and bilateral donors.

13. In order to ensure a smooth transition from least developed country status for graduating countries, **the Committee recommends that henceforth each graduation case should justify the convening by the United Nations of a round-table meeting in which development partners and the graduating country examine measures to ensure a smooth transition.** In this regard, the Committee also stresses that the main challenge will be to make the transition not only a smooth one, but the continuation of a dynamic process of development. **It is further recommended that a meeting of experts on the overall question of smooth transition be organized before the 2003 review of the list of least developed countries, in order to cast light on the likely treatment of graduating countries by their main bilateral and multilateral partners.**

Chapter II
Aid effectiveness: focus on Africa

14. The Committee focused on aid effectiveness in Africa on account of three related factors. First, aid to Africa has declined sharply in recent years. Second, past experience with aid in the region has been disappointing. Third, the region is lagging behind in human and social capabilities, while facing both old and new challenges in the form of persisting poverty and rising inequality, an HIV/AIDS pandemic and a proliferation of regional conflicts. Hence, there is a pressing need to rebuild the constituency for aid to Africa.

A. Trends in aid flows

1. The aid profile

15. The most striking and noted fact about ODA flows is the extent to which they declined over the 1990s. Net ODA, in current prices, rose fairly continuously from the early 1950s, peaked around 1992 and has declined since that time. Thus, while net ODA receipts were $60.8 billion, in current prices, in 1992, they totalled only $53.7 billion in 2000, which represents an 11.7 per cent decline.[5] Given the world rate of inflation during the period, the decline has been even greater in real terms.

16. A number of explanations have been put forward to account for the observed levelling off of aid flows in the post-1992 period. One rationalization is the end, in the early 1990s, of the cold war, a period when much of so-called aid had been provided less with development in mind than with the intent of securing political allegiance. A second factor has to do with a dwindling involvement and interest of ex-colonial powers in the development process of their ex-colonies. A third reason is the mounting pressure on the national budgets of donors. A fourth factor often cited for the decline in aid volume is donors' disappointment with recipients' performance and concern that their assistance is not achieving its objectives.

17. Regardless of the reasons, ODA has declined substantially as a share of donors' GNI. The decline is especially pronounced in the case of the European Union (EU) and the United States of America (table 1). It is noteworthy that Japan's aid as a share of GNI has remained relatively stable, despite the country's prolonged recession. The recorded decline in the ODA/GNI ratios of major donors over the last 15 years has considerably increased the gap between existing shares and the target of 0.7 per cent.

Table 1
Official development assistance as a share of gross national income of selected donors
(Period average: percentage)

	1985-1989	*1990-1994*	*1999-2000*
European Union	0.45	0.44	0.32
Japan	0.31	0.29	.031
United States of America	0.20	0.18	0.10

Source: *The DAC Journal: Development Co-operation: 2001 Report*, vol. 3, No. 1 (2002), table 6a.

18. Furthermore, the share of total ODA flowing to the least developed countries does not provide an encouraging story. In 1989-1990, aid from DAC countries to these countries amounted to roughly 37 per cent of donors' total aid. In 1999-2000, this share amounted to only 30 per cent of total assistance and by 1998, only five countries — Denmark, Luxembourg, the Netherlands, Norway and Sweden — had met the special targets for ODA to least developed countries[6] set forth in the Programme of Action for the Least Developed Countries for the 1990s.[7]

19. Sub-Saharan Africa received roughly 23 per cent of net bilateral ODA in 1999-2000. During the same period, net disbursement of ODA to this region amounted to 32 per cent of multilateral ODA disbursements and roughly 27 per cent of total ODA flows to developing countries. Within sub-Saharan Africa, top recipients, in absolute terms, in 2000 were Mozambique, Ethiopia, Ghana, Kenya and South Africa.

20. Major donors to Sub-Saharan Africa fall into two categories. In the first set are a number of former colonial powers with "strategic" interests in the area, including factors such as a colonial past. A second group of countries, most notably Denmark, Ireland, Norway and Sweden, have directed large shares of their aid to this area based on regional needs. The proportions of these countries' total aid going to the region were 38.6, 66.8, 32.1 and 29.7 per cent, respectively in the year 2000.[8]

21. From the perspective of recipients, it is not merely the quantity of aid that is significant. Rather, it is the weight of such assistance in the countries' economies. One indicator of the importance of aid to recipients is given by the ratio of ODA to gross national income (GNI). In some instances, this ratio is quite high. This is particularly true for some sub-Saharan economies, including many least developed economies (table 2). Ratios of ODA to GNI are especially high for a number of small economies, including Sao Tome and Principe (for which the ratio is over 65 per cent), Guinea-Bissau (over 25 per cent) and Cape Verde (almost 24 per cent) despite major differences in per capita income in these countries. War-torn countries, or economies recovering from other social emergencies, also tend to have high ratios of ODA to GNI. However, a number of poor Sub-Saharan African economies, such as Nigeria and Ethiopia, have extremely low ratios of ODA to GNI despite their low per capita incomes.

Table 2
Official development assistance/gross national income and gross national income per capita in sub-Saharan economies

Country	*ODA/GNI ratio 2000 (percentage)*	*GNI per capita 1999 (US$)*
Top six		
Sao Tome and Principe	65.10	270
Guinea-Bissau	25.70	170
Cape Verde	23.80	1 330
Mauritania	23.70	390
Madagascar	23.00	250
Mozambique	22.00	220
Bottom six		
South Africa	0.40	3 160
Nigeria	0.50	250
Mauritius	1.00	3 540
Botswana	1.30	3 040
Ethiopia	1.30	100

Country	ODA/GNI ratio 2000 (percentage)	GNI per capita 1999 (US$)
Seychelles	2.20	7 010
All sub-Saharan Africa	**4.30**	
All Africa	**3.30**	
Least developed countries in Africa	**8.46**	
All least developed countries	**0.92**	

Source: *The DAC Journal: Development Co-operation: 2001 Report*, vol. 3, No. 1 (2002), table 25.

22. Whereas aid in the 1960s largely focused on building up the industrial capacity and physical infrastructure of developing countries, in recent years ODA has increasingly concentrated on building up "social investment" required for long-term development. In 1977-1978, bilateral aid in the social sectors (education, health, water and other social infrastructure) accounted for 20 per cent of DAC members' bilateral aid. In 1997-1998, and again in 2000, it accounted for roughly 30 per cent.[9] Meanwhile, emergency aid has increased, in some cases dramatically, particularly to meet famine crises in Africa and an upsurge in protracted refugee problems. Such relief, which amounted to roughly 6.5 per cent of bilateral aid in 1997-1998, increased to 7.7 per cent in 2000 (table 3).

23. Data by purpose are not available for sub-Saharan Africa, but only for the least developed economies. Using the available figures, it can be observed that, together with the decline in ODA to least developed countries over the 1990s, there has been a shift in the purposes to which ODA to these economies has been committed. While the share of ODA commitments designated for social infrastructure and services in the countries increased significantly (from 14 per cent of commitments in 1985-1989 to 33 per cent in 1995-1998), commitments to economic infrastructure and services, productive infrastructure and multisectoral projects fell from 59 per cent in the earlier period to 39 per cent in the later one.

Table 3
Aid by major purpose, 2000
(Percentage)

Social and administrative infrastructure	31.7
Of which	
Education	7.8
Health	3.5
Economic infrastructure	16.5
Of which	
Transport and communications	9.6
Production	7.0
Of which	
Agriculture	5.1
Multisectoral	8.2
Programme assistance	7.1
Debt relief	7.8
Emergency assistance	7.7
Administrative expenses and unspecified	13.9
Total	**100.0**

Source: *The DAC Journal: Development Co-operation: 2001 Report*, vol. 3, No. 1 (2002), pp. 235-236, table 19.

24. Another significant trend over the course of the 1990s has been the increase in emergency aid as well as grants in the form of debt forgiveness. In 1998, these two assistance categories together accounted for 35 per cent of bilateral ODA grant disbursements to the least developed countries.[10]

25. The shift in the composition of ODA towards emergency aid and debt forgiveness on the one hand, and towards social infrastructure and services on the other, might help explain the limited effects of aid on growth as they tend to have only limited long-term effects on productivity and growth. These can also be attributed to the relatively high degree of uncertainty associated with aid inflows. There are two main reasons why aid receipts have been volatile and unreliable. First, donors have often used them to advance changing political objectives. Second, donor procedures for disbursement have often been so cumbersome that, even when funds have been committed, there have often been long and unpredictable lags before Governments have been able to utilize them.[11]

26. The dependence of many developing countries on volatile aid receipts, in conjunction with the prevalence of exogenous shocks, has increased the vulnerability of these economies. Uncertainty has had adverse effects on the level of investment (especially public investment) and, via that route, on growth.[12] Uncertainty has also constrained policy and fiscal behaviour. Therefore, from an empirical perspective, aid uncertainty appears to be negatively associated with economic performance.[13] One implication of this finding is that for aid to be effective, a stable policy environment is required.[14]

2. Multilateral assistance

27. During the 1990s, multilateral assistance to aid recipients was about 40 per cent of the size of bilateral flows. In 2000, $13.5 billion was channelled via multilateral institutions, which was the equivalent of about 38 per cent of bilateral ODA flows that year ($36 billion).[15]

28. Since most multilateral institutions specialize in certain areas or sectors, the use to which aid has been put has depended to some degree on the donor institution. However, certain trends can be observed. During the past decade, multilateral aid has shifted to projects and programmes designed to achieve restructuring through capacity-building. In 1999, the largest portion of multilateral aid went into social and administrative infrastructure (38 per cent), while 29 per cent financed improvements in economic infrastructure and 8 per cent, productive expansion and restructuring. The remaining 25 per cent was used to finance multisectoral projects.

29. In keeping its "non-political" character, multilateral assistance has frequently performed a "gap-filling" role, concentrating on countries that are off the political or economic agenda, or of little "strategic interest" to donor countries. Partly for this reason, multilateral aid has been more evenly distributed than bilateral assistance across recipients. Thus, it has been directed more evenly across both large and small countries. At the same time, however, because such aid is frequently smaller than bilateral assistance, it tends to fluctuate more widely. This tendency proves to be destabilizing for recipient countries. For example, between 1993 and 2000, while bilateral ODA declined by 8.6 per cent, multilateral aid fell by 16 per cent.[16]

30. The share of multilateral aid going to least developed countries, a group that includes most sub-Saharan countries, is considerably higher than that of bilateral aid. In 1987, 54 per cent of multilateral aid disbursed worldwide went to least developed countries. Although this rate was not maintained thereafter, the share in 1997 (the most recent year for which data are available) amounted to about 40 per cent. It appears, therefore, that multilateral aid concentrates more on the poorest countries.

B. Additional aid requirements for Africa

31. In the case of Africa, the persistence of conflict and post-conflict situations in many countries, as well as the HIV/AIDS pandemic, calls for large additional transfers of resources, beyond the general requirements for poverty reduction and accelerated growth. Over 19 countries in sub-Saharan Africa have experienced, or are still experiencing, serious civil conflicts that have led to the destruction of infrastructure, the human resource base and the broad politico-economic environment. With respect to the HIV/AIDS pandemic, recent estimates suggest that 12 million people in Africa (out of 22 million worldwide) — more than the entire population of Belgium — have to date died of AIDS, and many millions are living with the HIV virus.

32. On account of HIV/AIDS, a World Bank study estimates that Africa's income growth per capita is being reduced by about 0.7 per cent a year.[17] This is resulting in part from the adverse effects on health, the size of the active labour force and productivity. In the case of some countries in Southern Africa, the major effect of HIV/AIDS in reducing life expectancy by more than 20 years implies a substantial reduction in both the human capital stock and growth prospects. Owing to increased mortality rates, experienced employees have become scarce, and the returns to on-the-job training have declined. Saving and investment rates (both domestic and foreign) have fallen, influenced both by mortality trends and by adverse expectations. These trends, in turn, have worsened the productivity of human capital and total factor productivity, further discouraging investment and reducing economic growth.

33. In order to avoid social and economic disaster from AIDS in Africa, it has been estimated that $3 billion-$4 billion a year will have to be spent to mount

a major counter-attack on the pandemic.[18] Given the limited financial resources in the continent, the international community would therefore need to increase its support for AIDS programmes in the poorest countries to complement domestic spending. In this context, some African countries (for example, Burkina Faso, Mozambique and Uganda) are already using Poverty Reduction Strategy Papers (PRSPs) and other national expenditure frameworks to indicate resource requirements and deployment for fighting HIV/AIDS. Donors should aim to provide additional support within these HIV-augmented PRSP frameworks.

34. Conflicts have also destroyed the growth dynamic of many countries. Beyond emergency measures to contain them and protect human lives, a key objective of policy at the end of conflicts should be to provide a smooth and early transition from emergency relief to rehabilitation and reconstruction and to post-conflict development.[19] For the 19 countries that underwent conflicts, reconstruction of key facilities like infrastructure would alone present a large claim on resources. When the wide-ranging demands of post-conflict requirements for growth and development are added on, the resulting resource requirements would rise considerably, pointing to the need for substantial increases in aid.

35. Issues pertaining both to HIV/AIDS and to post-conflict financial requirements, are addressed in the New Partnership for Africa's Development (NEPAD) and the Tokyo International Conference on African Development (TICAD). Both NEPAD and TICAD emphasize internal peace, security and democracy as central to the way forward, and call for international resource support through all types of capital flows (including ODA and debt relief) and enhanced international market access. Priorities include infrastructure, human resource development (including health), agriculture, the environment, and science and technology. The domestic and external resource requirements with respect to implementing these programmes are considerable, calling for effective partnerships and solidarity.

C. The evolving aid paradigm: aid effectiveness and partnership

36. Recent shifts in the global economic and political environment, underpinned particularly by the surge in private capital flows to the developing world, have altered the aid paradigm in a manner that questions afresh the modalities for aid in development strategies. The Committee has noted the danger, already highlighted by some authors, that donors could "override" or "undercut" recipients in the aid process.[20] "Overriding" occurs if donors define what recipients should be doing and, at the same time, provide instructions, incentives or conditionalities that push recipients in the "right" direction. Conditionality, for example, requiring good governance, propensity to reform or convergence of policies etc., often results in overriding recipients' independent motivation and will. "Undercutting", on the other hand, occurs if donors, in extending aid, create the conditions for the long-term dependency of the recipients, or supply "the motivation for the doer to be in or remain in a condition to receive help".[21] Charitable relief, however benevolent, can turn out to undercut autonomous motivation by recipients. To avoid overriding or undercutting, the Committee stresses that the primary goal for aid and assistance should be capacity-building in recipient countries, in other words, the creation and development of human and social capabilities that foster autonomous development, innovation and change.

37. Aid effectiveness means meeting programme and project development objectives. As such, it is a multidimensional concept that encompasses capacity-building, poverty reduction and sustainable growth. These can be achieved if there is a good and stable policy environment in recipient countries and coordinated actions among all the relevant international and domestic stakeholders, in the context of an effective partnership for development. For aid programmes to be effective, they need to be integrated into country-driven, long-term strategies for sustainable economic development, with a focus on results and a framework for mutual accountability.

38. Ownership is essential, since countries bear the primary responsibility for their own development. Moreover, country strategies must enjoy broad political support, if they are to provide a consistent, long-term framework for external assistance. Development also requires a stable, predictable framework. Internally, stability needs to be ensured through consensus-building and participatory approaches; externally, through predictable, multi-year support envelopes.

39. Partnerships, including formal contractual arrangements, are crucial. While there is no entitlement

to aid as such, development cannot occur in the absence of clear commitments by all relevant stakeholders to implement a consistent agenda for poverty reduction and development. This should consist of integrated macro, trade and structural policies and programmes designed by the developing country itself, spelling out the mutual obligations of all stakeholders as agreed upon by the relevant stakeholders. These should include a set of realistic, monitorable targets and performance indicators — for both donors and recipients — with adequate provisions for exogenous shocks. More importantly, they should incorporate independent monitoring and evaluation procedures, upon which financial allocations would be conditional. Partnerships can then be underpinned by appropriate funds replenished from different sources of financing, including ODA allocations, innovative sources, private contributions or debt and/or equity financing by the private sector.

40. Within such a framework, aid programmes should be viewed as expanding the menu of financing options available to a country, where the price and design of these options are as important as the overall size of flows, and where financing choices are constrained not only by donor generosity, but also by the balance sheets and managerial capacities of individual recipients.

41. From the point of view of donors, discussions on aid effectiveness have led to recommendations for: (a) improved conditionality; (b) greater selectivity; (c) the provision of technical assistance and dialogue ("ideas before financing") to countries with weak policy environments; and (d) a shift from project-based support to general budget or sector support.

42. Conditionality has been used in the past as a means of improving aid effectiveness. The evidence suggests that conditionality fails when it attempts to induce changes in behaviour that recipients are not committed to or when it seeks to "micromanage" the aid process. However, well-defined performance targets are fundamental to good public policy. Conditions that are limited, jointly negotiated with policy makers, and consistent with learning by all parties, can support donor aid constituencies while enhancing the quality of policy formation and implementation by the recipient Government. To the extent that they build recipient institutional capacity, they have an important role to play in aid agreements.

43. Instead of conditioning aid to future performance, selectivity purports to reward those that already have in place a policy environment deemed conducive to aid effectiveness. The Committee notes several problems with selectivity. First, development assistance is only one component of official flows, and the total is strongly influenced by the non-developmental motivations of donors, leaving relatively little practical scope for policy-based selectivity. Second, the empirical basis for selectivity is weak. Third, such an approach is likely to deprive some of the neediest countries of the assistance they require for infrastructure development, economic stability, policy reform and capacity-building. Finally, it might subject development support to a potentially large degree of arbitrariness and volatility which is likely to reduce its effectiveness.

44. The problem with "ideas before financing" is, first, that financing is required to secure donors "a place at the table", and, second, that technical cooperation has proved to be the least effective form of assistance. Institutional capacity is the main constraint on development in poor countries, but the donor community has not yet developed modes of technical cooperation that support rather than supplant it.

45. The notion of "programmes over projects" can also be problematic. Programme lending is perceived to be significantly less intrusive than project assistance. The shift away from project lending was based in part on an expected improved division of labour between the private and public sectors in African countries, with the government retreating from projects in the agricultural and industrial sectors that were supposed to be financed by the private sector. The same was expected in the area of infrastructure development, or where technological developments allowed greater competition, as in telecommunications. The presumption of fungibility, however, which was central to the criticism of project-based finance, does not seem to hold among the poorest countries, where private financing has not been forthcoming and project assistance has often financed virtually the entire public investment budget. Furthermore, it is in a project context that the greatest learning by recipients takes place.

46. The PRSP process, with its focus on shared poverty goals, policy dialogue and broad participation by civil society, can be viewed as a first attempt towards the development of effective partnerships. In

the context of PRSPs, the meeting of targets is not identified with conditionality, but with the attainment of shared priorities. For countries in which poverty and institutional weaknesses are intertwined, as in much of sub-Saharan Africa, the PRSP approach places the emphasis correctly on local participation and ownership.

47. Many African Governments view the PRSP framework as embodying many of the emerging principles of effective aid. It has well-defined inputs, intermediate outputs, and targets, and it incorporates monitoring systems. In service delivery, it focuses on ensuring that resources reach service-delivery units (in other words, accountability) and on providing cost-effectiveness in the delivery of services. On the other hand, the PRSP framework provides important restraints for both donors and recipients. On the donor side, the process builds in a medium-term planning and commitment horizon and protects the recipient's role in formulating priorities and choosing policy instruments. On the recipient's side, failure to meet agreed targets raises questions regarding further donor support.

48. In practice, however, it is difficult to fully reconcile the objectives of participation, ownership and capacity-building with the PRSP process. Donors dominate the dialogue, given the numbers and experience of their staff and their fuller access to information. More importantly, recipients know that it is risky to challenge donor priorities. Key features of the PRSP, including its emphasis on multi-year commitments and broad participation, run counter to legal and political systems of many recipients. Most recipients do not have mechanisms for allowing spending units to budget on a multi-year basis.

49. Important institutional innovations are also embodied in new regionally based initiatives, including NEPAD and TICAD.[22] Peer pressure, both among donors and among recipients, is an underexploited resource for improving aid effectiveness. Under NEPAD, for instance, participating Governments can select initiatives appropriate to their institutional capabilities and reform priorities (for example, the capital markets initiative requires commitment to the economic and political governance initiative), with performance relative to these commitments monitored via annual meetings of heads of State.

50. An additional example of domestically generated institutional innovations in respect of aid and economic performance is the current experiment of the United Republic of Tanzania with an independent monitoring system for aid effectiveness. This system generates an annual assessment of donor progress towards good aid practice, based on indicators of (a) ownership and its inputs (including policy dialogue and internal reporting mechanisms); (b) transactions costs; (c) accountability; (d) capacity-building; and (e) flexibility. The system, which also assesses the recipient's progress in improving the policy and institutional environment, has the full commitment of the Tanzanian Government and is supported, in part, by peer pressure among bilateral donors.

D. Conclusions and recommendations

51. Aid flows to Africa have fallen precipitously since the early 1990s. While debt relief is under way and private capital flows have increased, much of the continent remains heavily dependent on official financial transfers. Standard projections suggest that achieving international development targets will require very substantial increases in official flows. The moral urgency of these targets, together with region-wide concerns including HIV/AIDS and conflicts, should help to build a new constituency for African development assistance. The Committee regrets that the contributions to the Global AIDS and Health Fund fall far short of estimated requirements, and appeals to those that have not generously contributed to do so.

52. Four decades of experience have shown that the effectiveness of aid is only partly determined by its level. The effectiveness of each dollar of aid can and must be enhanced through the joint efforts of donors and recipients. This objective is critical regardless of how the level of aid evolves, and it is likely to be critical for achieving any sustained increase in net flows.

53. Evidence suggests that aid effectiveness is jointly determined by (a) the quality of the recipient's policy environment and (b) the quality, timeliness and appropriateness of donor assistance. Both of these factors have evolved substantially since the early 1990s. Macroeconomic, sectoral and trade policies have improved in many African countries, and a number of countries have made significant progress in terms of capacity-building and public sector reforms. For their part, multilateral donors have introduced institutional reforms to facilitate debt relief, coordinate

donor activities, and promote a greater focus on results and local ownership, while key bilateral donors have reassessed their country portfolios and developed new frameworks for both aid and trade. Further progress requires a continued joint focus on good policy and good aid.

54. From the point of view of recipient countries, rethinking aid modalities leads to several conclusions:

(a) Aid works better in a good and stable policy environment, so that improvements in governance and institutions of developing countries can upgrade service delivery systems and contribute to aid effectiveness;

(b) A more holistic approach that captures synergies across sectors, agencies and programmes tends to enhance aid effectiveness;

(c) An active civil society improves public services. In sectors such as natural resource management, primary education, rural water supply and urban sanitation, a **participatory approach** to project design and service delivery, in contrast to top-down technocratic approaches, could yield significant improvements;

(d) Effective aid complements private investment. In countries committed to reform, aid enhances private sector confidence and better supports public services, while, in severely distorted markets and environments, aid acts as a substitute for autonomous private investment, often explaining the marginal impact of aid in such cases.

55. From the point of view of donor countries, the following priorities could make aid more effective:

(a) Financial assistance needs better targeting towards least developed countries, especially in Africa, and towards other low-income countries. Much aid continues to go to middle-income countries where the ability to tap private financial flows has been increasing;

(b) Policy-based aid helps to enhance policy reform in the case of credible reformers. In contrast, donor financing with strong conditionalities, but without strong domestic leadership and political support, has generally failed to produce lasting changes. A demonstrable commitment, based either on a strong track record or on credible intent to initiate well-sequenced reform efforts, is conducive to aid effectiveness. Governments in post-conflict situations that are advocates for reform and modernization should be actively supported;

(c) The focus and mix of aid activities should be country-specific and integrated into domestic development priorities. Where macroeconomic policy is sound, but the institutional capacity for delivering services is weak, aid would have a stronger impact if it was used to create such capacity. Institutional capacity creation should include, inter alia, the effective regulation of financial markets in order that other financial flows, through equity and bond markets, may complement aid. Where both macroeconomic policy and institutional capacity are strong, aid should be channelled more liberally in the form of budgetary support, which could reduce cost overheads and simplify administration;

(d) Coordination among all relevant stakeholders is essential so as to avoid duplication, inconsistencies and inefficiency in project and programme design and implementation. Coordination should be promoted at the local, provincial and national levels, ensuring benefits from synergies and the promotion of externalities;

(e) To ensure sustainability of results, aid projects need to focus on creating and transmitting knowledge and capacity. The active participation of recipients in the design and management of aid programmes through effective partnerships with donor countries is an important tool in increasing their capacity to participate as equal partners in the global knowledge-society. In many cases, innovative approaches to service delivery require greater participation by local communities and the decentralization of decision-making. Aid effectiveness also requires objective and rigorous evaluation of outcomes, the dissemination of information for purposes of institutional learning and mechanisms for the resolution of conflict.

56. The central tenets of the PRSP approach address many of the critiques of aid effectiveness. The PRSP process, a first step towards building effective partnerships, outlines the mutual obligations of both recipients and donors. Its flexibility, however, should be enhanced to support a variety of national development programmes, including programmes targeting long-run growth as the primary vehicle for poverty reduction. It should encourage modes of

participation, monitoring and evaluation that strengthen domestic structures of political representation and support the recipient's own efforts to increase transparency and accountability in government.

57. An effective partnership with recipient Governments requires not only a willingness to coordinate programme assistance and eliminate overlapping or competing conditionalities, but also a recognition of the scope for functional specialization by donors, based on expertise and institutional structure. With respect to the public/private division of activity, the case for public intervention is strongest where market failure is greatest — including failure with respect to distributional objectives. Donors should seek to create conditions under which private capital, both foreign and domestic, can make a maximal contribution to African development.

58. Regional cooperation, such as that being promoted through NEPAD, in the areas of transport infrastructure, power generation and distribution, telecommunications, applied agricultural and health research, education and health, and security, is critical to African development. It requires the development of a regionally based approach to overcome market and policy failures associated with country-by-country provision. Both the need and the scope for effective, regionally based aid are greater now than at any time since the 1960s. Where possible, this aid should be channelled through existing regional organizations, with capacity-building in these organizations regarded as a separate and important objective.

59. Based on the positive experience of NEPAD, the Committee urges African countries at the national or regional basis, to explore innovative approaches to creating **African development and aid partnerships** with all relevant stakeholders, including donor countries, international financial institutions, multilateral development banks, and private sector and non-governmental organizations operating in the field. The Cotonou Agreement signed between the European Union (EU) and countries of the African, Caribbean and Pacific (ACP) Group of States has provided a useful example in this direction.

60. In this context, the Committee also proposes the creation of an **African development and aid portal** (ADAP) by the United Nations family (for example, UNDP in concert with the World Bank) to provide a gateway to all development and aid projects in Africa, including those of non-governmental organizations. ADAP would include a country-by-country detailed listing of projects and programmes, including geographical location, sector, description, amounts and quantities, participating countries and non-governmental organizations, progress in implementation, financial and operational details and other information. This would allow for better coordination and avoid duplication of effort among donors, and between recipients and donors, and lead to increased transparency and mutual learning on the part of donors and recipients regarding projects and innovations in project design and the determinants of success or failure. Local communities would be provided with project information, increasing the extent of local "ownership" and involvement, providing "voice" and leading to more effectiveness in development and aid. This provides for better "joint accountability" of donors and recipient Governments. By increasing worldwide awareness of the activities supported by African aid and the progress of individual projects, the ADAP Internet portal would also bring peer pressure to bear on countries and political leaders (both donors and recipients) for greater continuity and effectiveness in foreign assistance. ADAP would also include information on progress in implementing individual country PRSPs.

Chapter III
Human and social capabilities for development in a knowledge-based global society

A. Least developed countries: a widening deficit in human and social capabilities

61. Over the past 50 years, education and health systems have expanded rapidly. Schools and universities have proliferated in most countries, while provision of health services has become a multi-billion dollar global industry. Education and health indicators for both developed and developing countries have improved as investment in education and health has increased. Public expenditure on education in developing countries increased from about US$ 148 per pupil in 1990 to US$ 194 in 1997,[23] while public

spending on health reached about US$ 200 per capita in 1997.[24]

62. However, there are still regions in the world that are persistently falling behind. Disparities across and within countries continue to exist. Between 1990 and 1997, overall public expenditure on education in the least developed countries remained stagnant at $39 per pupil per year while, in health, Governments of these countries spent only $6 per capita, below the minimum threshold established by the World Health Organization (WHO) of $36 per person per year for these countries. Whereas literacy rates in developing countries improved between 1990 and 1997, rising from 67 to 72 per cent, only a little over half (53 per cent) of the population of South Asia is literate. Sub-Saharan Africa and the Arab States are only slightly ahead, with 58 per cent literacy rates. Within these regions, less than half of the population of the least developed countries (48 per cent) is literate. At the primary level, sub-Saharan and Arab States have enrolment ratios of 77 per cent and 85 per cent, respectively. At the basic level of education, the gender gap is persistent throughout, especially in the least developed countries, where only 62 per cent of girls are enrolled in primary schools and only 38 per cent of women are literate.

63. At secondary and tertiary levels of education, the gaps within developing regions and between developing and developed regions are even greater. While the gross enrolment ratio in secondary schools in the developed countries is measured at over 100 per cent, it is only 52 per cent in the developing countries, and only 19 per cent in the subgroup of least developed countries. Sub-Saharan Africa lags behind all developing regions with a ratio of 26 per cent. The gap is more dramatic at the tertiary level, where only 1 in 10 students in many developing countries continues on to tertiary institutions. Sub-Saharan Africa again ranks last with only 4 per cent enrolment in universities.

64. In terms of health improvement, the developing world, and African countries in particular, is lagging dramatically behind. Life expectancy has remained relatively constant during the 1990s, especially in sub-Saharan Africa, at 50 years, way behind the world average of 67 years. Similarly, this region reduced its under-five mortality only by 4 children per 1,000 live births between 1990 and 1998, while the least developed countries as a whole reduced under-five mortality by 20 children per 1,000 live births (from 171 in 1990 to 151 in 1998). A third of the sub-Saharan population remains undernourished. A quarter of South Asia remains in a similar condition. Consequently, the great majority of the countries with low levels of human capital are from sub-Saharan Africa, followed by South Asia.

B. New challenges and threats

65. Apart from lagging behind in literacy, educational attainment and health indicators, least developed and African countries in particular are today facing new challenges and threats. These arise as a consequence of globalization and the informational and technological revolution of the 1980s and 1990s. In the new knowledge-based global society, lagging human and social capabilities and a widening digital divide could exacerbate poverty and inequality, especially in Africa and the least developed countries.

66. These new exigencies emanate, to a large extent, from a required redefinition of policy goals. Globally, education systems are being redesigned: from systems that cater to the acquisition of skills and "passive knowledge", they are being transformed into systems promoting individual and collective capacity development. Similarly, in the health area, there is a move from curative to preventive services and approaches. In this process, special attention is being given to the synergies between health and education, as well as to integrated policies for capacity-building.

67. The structure and content of educational services are changing rapidly. In the past, primary-level and technical education was designed with a view towards ensuring literacy and the acquisition of basic skills so that workers, either in large factories or in rural areas, could read and follow printed instructions and blueprints. Secondary and especially tertiary education, on the other hand, was designed to prepare the technological, scientific and managerial elites entrusted with the smooth running of productive units, the promotion of innovations and the strengthening of stable governance. It is for these reasons that priority was given to universal primary education in contrast to selective enrolment in higher education. Education thus became highly hierarchical and rigid, catering exclusively to young age cohorts.

68. Today basic literacy is viewed as a necessary but not sufficient condition for development. Individuals have to build their capacity to have access to the

plethora of information that is currently available, to use it effectively in relation to their own needs and to develop analytical, synthetic and communicational skills and, more importantly, to build learning capacities throughout their lifetime. Furthermore, individuals need to build flexible skills that would allow them to adapt smoothly to changing labour markets. Finally, they need to have access to training and retraining services so that they can move freely between jobs and locations.

69. Today, in a world characterized by increased uncertainty, health for all means not only universal access to basic public-health services, improved environment and sufficient nutrition, but also the building of individual capacities to evaluate and cope with old and new health risks. Health education is rapidly becoming an important component of basic education.

70. Human resource development has thus evolved into a much broader concept concerned with the development of relevant and sustainable human and social capabilities. Development of human and social capabilities refers to the sustainable expansion of the ability of individuals, groups and institutions in a society to identify, manage and resolve existing economic and social problems, as well as to innovate individually and collectively with a view towards improving their life prospects.

71. Today, there are pressing needs to build networks and to learn to live together in harmony with respect for and appreciation of our human diversity. Thus, the development of collective capabilities has become an integral part of, and a major priority for, human capital formation. Global environmental risks and the spread of communicable diseases require that the concept of health and education as vehicles for social development be revisited. It is necessary to look at old problems with new lenses and to use these new lenses to address the new challenges.

72. Differences between the old and new exigencies in the current global context require a shift in paradigm and new approaches to promoting social and economic development. New, innovative and holistic approaches are needed to pre-empt and deal with these challenges. The above exigencies require us to look at education and health as flexible integrated systems that should underpin lifelong capacity-building efforts.

73. Developing countries need to address these new challenges and at the same time cope with traditional problems. Many of the services provided in these countries now seem to be inadequate and/or inappropriate for development goals. This has come about for three interdependent reasons:

(a) Not only is the investment made, often with external financing limited, but it is becoming obsolete, as knowledge-based societies are redesigning their education and health systems and strategies;

(b) The lack of an integrated approach to the provision of education and health services has intensified the vicious circle, whereby inadequate education leads to poor health and poverty which in turn limit educational capacity;

(c) The fact that the systems in place have not always catered to local economic and social needs has resulted in mismatches and inefficiencies in the labour market.

74. Following in the footsteps of education and health systems of industrialized countries, education and health systems in most developing countries have grown independently of one another, providing differentiated services that are being managed by separate ministries that follow uncoordinated policy agendas. Human resource development is still identified with the training of national personnel to be undertaken almost exclusively by Governments, often with the help of foreign technical assistance and financed by official development assistance (ODA). Over the years, the limitations of such an approach have become apparent.

75. In most developing countries, health issues reflect marked social divisions. The growing gap between the well educated, the well off and the poor includes also growing disparities in health problems. Negative synergies of poverty, obsolete education and increasing health risks (including human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) and tuberculosis) lead to marginalization of the poor and create social barriers to the implementation of universal health care.

76. Developing countries therefore have to resolve a basic contradiction: while advanced technologies and globalization have resulted in rising expectations and an expanded set of needs and new opportunities, at the same time they have given rise to new challenges. It is

only through the development of human and social capabilities that inequality and increased marginalization can be prevented. This requires a major overhaul of health and education systems in developing countries through the adoption of new approaches and innovative actions.

C. Approaches and innovative actions

77. Implementation of the new paradigm implies, inter alia: (a) developing and capitalizing on synergies between education and health; (b) securing universal access to integrated services; (c) securing high quality and flexibility in educational and health systems; (d) building innovative institutional frameworks; (e) reinforcing social capabilities; (f) harnessing opportunities brought by new tools, such as information and communication technologies (ICT); (g) designing innovative financing schemes; and, most importantly (h) forming local and global partnerships to face these new challenges.

1. Synergies between education and health

78. A new understanding of the meaning of health includes not only the fight against diseases but also the creation of the conditions needed for an active life. This cannot be achieved without building stronger synergies between health and education. Synergies have two-way effects: more learning means more capacity for self-regulation and responsible behaviour, helping to preserve good health and avoid health risks. Better health and fitness mean more opportunities for lifelong learning and more capacity for intensive use of information. Moreover, human resource development is a prerequisite of coping with damaged health and disabilities after crises, wars and natural disasters.

79. Health and education have synergy effects on other development objectives — individual and collective empowerment, protection of the environment and good governance. Educating people for development should therefore promote a balance among economic goals, social needs and ecological responsibilities and provide people with the skills, perspectives, values and knowledge to live in sustainable communities. Moreover, social capacity-building should foster attitudinal changes and new ways of thinking about sustainable development.

80. It is increasingly recognized that incorporating gender perspectives in different areas of development ensures a more effective achievement of economic and social goals, as reflected in the United Nations Millennium Declaration.[25] In health and education, targeted interventions should address women's needs and gender equality, as women represent a linchpin of the relation between health and education, and their contribution is essential for attaining social goals.

81. In this light, women's literacy is an important key to improving health, nutrition and education in the family and to empowering women to participate more in decision-making in society. Investing in formal and informal education and training for girls and women, with its high social and economic return, has proved to be one of the best means of achieving economic growth that is both sustained and sustainable. Governments, the private sector and civil society should ensure that schools and informal systems of education play a stronger role in preventing infection from communicable diseases, especially HIV infection. Education should also play a role in eliminating discrimination against women through the inclusion of gender-sensitive education about safer sex and responsible behaviour.

2. Securing access

82. Currently, the relationship between the community and school is often one of alienation, especially in the case of households that have low literacy rates. Recent development of community schools with greater involvement of families constitutes a major breakthrough, creating strong incentives towards increased enrolment and retention at the basic level. The creation of vocational and technical community-based schools distributed throughout a country is also likely to increase accessibility and relevance of education.

83. Enhancing participation also implies the elimination of regional or cultural impediments to the access to health and education. Peer group pressure, community and non-governmental organization involvement could and should play an active role in securing access.

84. Recent economic crises and the subsequent stagnation and decline in economic growth in many developing countries have produced declining enrolments in schools and a deterioration of health,

especially among young people from the rural communities, girls and the economically disadvantaged groups in society. AIDS orphans, in particular, constitute a growing proportion of early school-leavers. To ensure universal access to basic health and education services, the following actions are necessary:

(a) Policies should be geared to mobilize the family and enlist community support and financial assistance. The expansion of pre-school education, the training of parents and the development of networks between full-day preparatory and primary schools that would provide boarding and care for children from socially disadvantaged families are important steps in safeguarding community acceptance and participation. The provision of school lunches with minimal family/community contribution is a powerful incentive for enlisting community support and participation;

(b) Setting minimum standards for public expenditures in education and health. All children should receive basic education of good quality through the public provision of primary education, especially in the least developed countries. Information and communication technologies can be used to promote teacher training and to reach larger numbers of children. Retired teachers could be rehired to meet the existing shortages of teachers, while new ones are being trained;

(c) Integrating basic education with basic training, including the provision of traditional skills, basic health training and computer literacy. Also, it is important to stimulate, in the process, environmental awareness and to develop teamworking skills.

85. Securing access also implies investing in secondary and tertiary education, inter alia, in poor countries, so as to enhance the available stock of skilled personnel and to meet the rising shortages of teachers and doctors. Investment in tertiary education, which can be pursued more effectively in a regional context, especially among poor countries, is important for improving governance, as well as regional and national capacity-building.

3. Securing quality and flexibility

86. Emphasis on achieving high educational and health standards based on numerical indicators often misses the more subtle dimensions of quality. In the area of education, two important aspects of quality need to be differentiated: first, the extent to which education contributes to building human and social capabilities and the fulfilment of human potential; second, the extent to which the educational process succeeds in advancing the acquisition of skills necessary for employment.

87. The above differentiation implies that a country could build its human capital while missing some of these quality aspects. As this has been observed in many high-income countries, the problem is not unique to the developing world. Ensuring quality is tied to having quality standards for evaluating the development of human and social capabilities.

88. While recognizing that the establishment of new standards is almost always resisted by entrenched interests, the Committee stresses that, without uniform standards for evaluating progress, there are no means of determining the effectiveness of investment in education. For example, standards for the quality of teachers should be developed, periodic checks at the local and national levels should be executed, and incentives should be created to attract the most qualified to the teaching profession.

89. Standard measures of education achievement in terms of enrolment ratios and number of students finishing primary education are imperfect measures of quality. Hence, there is a need to establish tests and other procedures that can capture "functional illiteracy", even in cases of high enrolment ratios.

90. Standard measures focus on formal education, yet informal educational processes — such as those taking place in households and communities — also contribute to the acquisition of knowledge. However, there are no means to evaluate and measure these contributions. The acquisition of skills through informal processes affect women in particular since many women only acquire informally the skills they use for survival and support of family — whether in unpaid household production or in informal paid production (such as crafts, house-based work etc.).

91. If school curricula are not relevant to the development realities of the country, societies are not able to achieve the optimum return on their investment. Despite decades of independence, the content of the education curriculum in many African countries has not changed significantly from the content that was in place during the colonial periods. Economic globalization, health threats like HIV/AIDS, environmental degradation, and ICT demand that

education curricula be modified to generate the social capital required and to address these and other challenges that now confront developing countries. Failure to do so would further contribute to their marginalization in the global society and make poverty a fact of life for future generations.

92. Quality is also linked to the level of expenditures on education and health. High expenditures result in high education and health quality, as long as they are adequately designed. There is therefore an urgent need to increase expenditures in areas where these are low.

93. The capacity to adjust and resilience in the face of rapid change and shocks reside to a great extent in the ability of a society to adapt quickly and efficiently to these changes. A country's adaptive capacity for the future is determined, among other things, by programmes in education and health, which secure flexibility in terms of adapting and reshaping themselves. The Asian financial crisis and the experience of many countries that implemented structural adjustment programmes during the past two decades have shown the need for flexibility in the design and implementation of health and education programmes aimed at the social groups most adversely affected by such experiences. However, most countries have been unprepared for this task. Therefore, the Committee urges that an effort be made to increase flexibility and allocate resources to this end.

94. Flexibility can also be viewed as a part of the social protection programmes dealing with the negative effects of globalization, particularly unemployment and loss of access to health insurance affecting the most vulnerable sectors of the population. Empirical evidence suggests that there is a positive correlation between a country's openness and its provision of social protection.[26] This protection allows smooth transitions to new employment with the help of different programmes — ranging from unemployment funds and short-term training and retraining programmes, to the provision of funds for longer-term access to formal education.

95. In African countries, in part because of the large proportion of school-age population and the rigid framework of the existing educational system, school-leavers seldom have the opportunity to return to school. Because of certain social constraints, including motherhood and household chores, women have even fewer opportunities. Rethinking the school calendar in accordance with seasonal job requirements, instituting evening classes and opening schools during holidays can provide more flexibility so that the entire population can be included. Lifelong learning, with greater emphasis on flexible entry points, will encourage, among other things, the bridging of the current gender gap at all levels of education.

4. Building innovative institutional frameworks: a new role for government

96. In the past, Governments of developing countries were seen as the main driving forces of change, since markets and civic organizations were not well developed. The provision of educational and health services was viewed as coming under an exclusive government responsibility to secure basic human rights and the supply of certain public goods. As a result, the overpresence of Governments has often caused problems: overregulation, rigidity, corruption, inefficiency, and suppression of initiatives and dynamism from the private sector and civil organizations.

97. In the new paradigm, the provision of education and health services is viewed as a shared responsibility among Governments, individuals, the private sector and civil organizations to create an environment that would secure the full development of human capabilities and a supply of both private and public goods. Governments will still play a leading, albeit modified role, not only continuing to provide these services but also increasing oversight and regulating private sector activities where necessary, in order to assure healthy competition in the provision of services. Private sector participation in educational and health service provisions may bring new standards to an area previously dominated by public administration. Civil organizations and grass-roots movements could also play an increasing role in the future, since they are much closer to the final recipients of educational and health services.

98. To apply this shift in the development paradigm, particularly in sub-Saharan Africa, innovative institutional frameworks are needed. These should be multisectoral in focus and should facilitate mainstreaming of health and education matters into the overall development process of the nation. Innovative institutional frameworks must address those cross-cutting issues that lie at the nexus of education and health and whose existence is indicative of bottlenecks

or failures in the system, such as brain drain, gender inequality, and child labour.

99. Innovative institutional arrangements for delivering health and education services must encourage (and not frustrate) the participation of all strategic stakeholders — government, the private sector, non-governmental organizations, workers and employers' organizations etc. They must be open to allow each partner to work in areas and on issues in respect of which it has demonstrated a comparative advantage. Since this is a fast-moving world, such institutional arrangements must contain mechanisms for monitoring trends and the impact of interventions on social groups, in particular the more vulnerable groups. It should also have mechanisms for self-correction, self-adjustment or self-abnegation, if necessary.

100. In the present era, markets are relatively better developed, so that Governments need to focus on making all components of the education and health system work more effectively and efficiently — the private sector, government and civil society. The more developed the market is, the more participatory the system could and should be. In such an environment, Governments should:

(a) Set priorities and national agendas;

(b) Provide information and promote monitoring;

(c) Set standards for measuring access quality, flexibility and effectiveness;

(d) Ensure access to those who are currently unable to participate.

101. Given the vast scale of human resource needs in the health and education sectors, it is unreasonable to expect Governments to face these challenges alone. One of the critical priorities for government action should be the facilitation and nurturing of broad-based alliances and partnerships locally, nationally and globally to jointly address the deficit in human resource capabilities. For such partnerships to be effective, it is necessary for Governments to create appropriate legislative and institutional arrangements and to develop coordination mechanisms that ensure synergy and accountability across the activities of the various partners.

5. Reinforcing social capabilities

102. Social capabilities refer to the capabilities of a society to organize itself for development. Social capability is a multifaceted attribute: it includes capabilities related to education and health, as well as to legal and financial systems. It also includes collective attributes that make the economy and society more effective and efficient.

103. Capacity-building must take place at all levels of society — national, provincial and local. It is only when a local community acquires the capacity to design and create its own future that genuine development can take place, enabling it to choose among different technological and social options and adopt those that are most appropriate. In time, capacity grows with the reinforcing of institutions and infrastructure of all types — social, physical and financial. In this endeavour, it is important to understand the interrelationships among economic, health and education issues, especially the connections among poverty, gender inequality and HIV/AIDS.

104. In the era of globalization, knowledge is a strategic factor in competitiveness. Therefore, investments in social capabilities have high returns with regard to economic growth and technological change. In recent years, there has been a gradual realization of the need for investing in social capital. There appears to be increasing interest in strengthening local economies through the creation of closer-knit supportive communities and the provision of microcredit.

105. High social capabilities ensure that human potential can be developed and utilized fully. To build such social capabilities, it is important to:

(a) Provide access to health and education to all strata of the population;

(b) Promote value systems in which honesty, fairness, transparency, human rights, freedom, and guaranteed democratic decision-making systems are nurtured;

(c) Strengthen key systemic capabilities, including legal, educational and financial systems based on the foundations of the value system noted above;

(d) Promote discipline with a law-based governance structure and a fair market system.

106. Many societies in the developing world have social problems that inhibit and even destroy human capabilities. Among the most debilitating problems are corruption which often permeates the entire society, and drug abuse. Unless corruption and drug abuse are directly confronted and dealt with, efforts expended on building social capabilities and innovative institutional frameworks may end up as an exercise in futility.

6. Information and communication technologies (ICT)

107. The decade of the 1990s saw the maturation and wide-scale deployment of ICT across the developed countries. The diffusion was possible through the use of computers and communication that ushered in the Internet. While the use of ICT is regarded as standard operating procedure for business, government and civil society in the developed countries, this is not yet the norm in the majority of the developing countries, particularly the least developed countries.

108. Based on the lessons learned, ICT has great potential to transform the way developing-country societies conduct business and help to address the persistent social problems of education and health services. However, in the vast majority of cases, ICT is yet to be utilized for such purposes. The delays in exploiting the opportunities offered by ICT may further increase the already wide gaps in the quality of life of citizens living in developing countries, particularly those in the rural areas. ICT, effectively utilized, will make major contributions to education and health in the developing countries through:

(a) Expanding coverage of education and health delivery services;

(b) Improving the quality of education and health delivery services;

(c) Reducing the cost of education and health provision.

109. A new ICT-based curriculum for health and teacher training should be developed with a focus on social capacity-building, including basic knowledge and skills in community work, social networking, social rehabilitation, methods of teamwork, health risks prevention and intercultural communication. ICT-based programmes should be created for incorporating knowledge, traditions and skills of indigenous cultures into contemporary knowledge-management systems for use in education and health management. Well-designed ICT services, including e-learning at the tertiary level, can be adjusted to community needs and facilitate lifelong learning.

110. To expand the pool of knowledge available for addressing the new challenges in health, particularly the shortage in the number of trained medical personnel, Governments should not only utilize the newer forms of knowledge (ICT) but also, as a matter of policy, provide appropriate support to indigenous systems of preventive and creative medicine that still cater to the needs of a substantial proportion of the population.

111. ICT can also help to improve women's health by generating knowledge, information and policy advice that could be applied to making the health system more responsive to women's needs. Health conditions could also be improved through spreading of information via ICT about health norms, availability and quality of resources and their pricing. In parallel, the decentralization of management will help to bring health services nearer to communities and to strengthen their accountability with respect to resources.

7. Innovative financing

112. Given the growing need for additional investments in health and education to address factors such as globalization and HIV/AIDS, Governments will need to pursue innovative approaches to mobilizing resources. Potential areas suggested for resource mobilization include:

(a) *Household contributions*. The primary responsibility for health and basic education lies within the household. While economically stressed households have limited resources, a large number of small contributions can amount to substantial resources. Inducing households to respond in such a manner will require full partnership. This implies their participation in processes like policy formulation, and choosing teachers, doctors, and curriculum content etc., from which they might have been previously excluded;

(b) *Community contributions*. While most poor communities look to government for education and health services, there is growing evidence that communities can be mobilized to make significant contributions to basic education and health. Communities could undertake special events and make in-kind contributions that eliminate the need for the

provision of some resources. For example, communities can contribute to the maintenance of health and education infrastructure which can then be used to serve wider community needs. As with households, this would create a different relationship between local government and the communities — a relationship in which communities are full partners with government and use their resources to supplement those of the government in the implementation of a common agenda;

(c) *Private sector contributions*. The success of the private sector to a large extent depends on the capacity and health of its employees. Therefore, it has vested interests in supporting quality education and health services. The Government's relationship with the private sector, in the majority of developing countries, is limited to revenue collection in the form of taxes and duties. As with communities, getting the private sector involved in education and health will require a redefinition of this relationship. Towards this end, Governments can provide a friendly environment in which the private sector is a contributing partner. Greater efficiency in the provision of health and education services would eventually benefit all sectors;

(d) *Local government*. Traditionally, local governments have operated based on policy and directives established by the central government with rather limited inputs from the communities that they serve. The process of decentralization that is now being implemented by most developing countries is intended to ensure greater participation of communities in planning and decision-making. Local government in partnership with communities and the private sector represents a new mechanism with significant potential to improve the effectiveness of education and health services. This would also require the allocation of resources to the local level, either through transfers or through local revenue requirements;

(e) *National government*. The responsibility for the overall allocation of resources is the responsibility of national government. Recognizing the strong synergy between education and health, Governments could consider integration between these two separate portfolios, in order to realize synergies that would eventually increase these allocations. Better education has been shown to significantly improve health status;

(f) *Increasing 20/20*. According to the consensus on the so-called 20/20 formula reached at the World Summit for Social Development in 1995, developed and developing countries are committed to providing respectively 20 per cent of their ODA and 20 per cent of their budget to the social sectors.[27] However, overall levels of public social spending have been declining in most parts of the developing world.[28] Fulfilling this pledge would increase significantly the resources available for investing in health services and education;

(g) *Increasing ODA*. Since the late 1960s, donors have committed themselves to providing 0.7 per cent of GNI to ODA. This commitment was reaffirmed at the World Summit for Social Development, held in Denmark in 1995. However, the trend of decline in donor contribution to ODA is continuing. This has adversely affected flows to the least developed countries and has aggravated resource constraints, especially in the areas of health and education. Donor countries once again recognized, at the International Conference on Financing for Development, held in Monterrey, Mexico, in March 2002, that a substantial increase in ODA is required in order to achieve the development goals and objectives set in the United Nations Millennium Declaration.[29] In that light, concrete steps should be taken so that the pledges made in Monterrey are fulfilled;

(h) *International Global AIDS and Health Fund*. The Committee welcomes the initiative of the G-8 countries to provide for a special fund to fight the spread of HIV/AIDS, particularly in Africa, and encourages further commitments from the industrialized countries;

(i) *Innovative financial sources*. Even with successful implementation of the above measures, developing countries will face resource constraints in respect of financing education and health which are increasingly becoming global public goods. The Committee therefore suggests that new avenues for resource mobilization (for example, a carbon tax, levies on financial transfers and rent for the use of airspace and territorial waters etc.) be explored to finance the development of human resource capabilities in developing countries, most notably in Africa.

8. Forging partnerships

113. Greater reliance on local initiatives involving people-to-people interaction and the value of alliances and partnerships among government, civil society and

the private sector should be encouraged. In that light, partnerships should be encouraged within local communities among employers, organizations, trade unions, education authorities, training providers etc. in order to ensure the quality of public and private sector training and education. Youth organizations should be encouraged to take initiatives and actions at community and national levels.

114. Besides partnerships at the local and national level, partnerships for development at the regional and/or global level can be important institutional mechanisms and vehicles for capacity-building in developing countries based on the growing recognition of regional and global interdependence. Partnerships for capacity-building and human resource development can increase both the quantum of available resources for education and health, and the effectiveness of policies of developing countries. In this connection, the Committee welcomes the fact that the revised paper of the Chairman of the Commission on Sustainable Development acting as the preparatory committee for the World Summit on Sustainable Development (A/CONF.199/PC/L.1/Rev.1) recommended the promotion of partnerships in science and education as well as health issues related to sustainable development in preparation for the Summit, to be held in Johannesburg, South Africa, from 26 August to 4 September 2002.

Chapter IV
Identification of the least developed countries

A. Introduction

115. The Economic and Social Council, in its resolution 2001/43 on the report of the Committee for Development Policy, requested the Committee, inter alia, to continue its work on the methodology to be used for the identification of the least developed countries, where appropriate in association with other international organizations working on environmental and economic vulnerability issues, and to report to the Council in 2002 on the criteria it proposed to use in the triennial review of the list of the least developed countries scheduled for 2003.

116. In the same resolution, the Council also requested the Committee to continue its work on the re-examination of its recommendation to graduate Maldives from the list of least developed countries at its fourth and fifth sessions and to submit a progress report to the next substantive session and final recommendations to the 2003 substantive session of the Council, taking into account the information referred to in preambular paragraphs 6 and 7 of resolution 2001/43 and further information to be provided by relevant development partners and multilateral organizations.

117. More recently, the General Assembly, in its resolution 56/198 entitled "Further implementation of the Global Conference on the Sustainable Development of Small Island Developing States", taking into account Council resolution 2001/43, re-emphasized the need to complete, without delay, the quantitative and analytical work on the vulnerability index mandated in the review document adopted by the Assembly at its twenty-second session,[30] and the relevance of such work to the work of the Committee on criteria for the identification of least developed countries and its importance to relevant small island developing States.

118. The Committee at its fourth session addressed a number of issues regarding both the methodology for the identification of the least developed countries, including the refinement of the economic vulnerability index introduced in 2000, and the specific case of the graduation of Maldives. The Committee was assisted in its work by the report of an Expert Group meeting on the methodology for the identification of the least developed countries, which had been held at United Nations Headquarters in New York on 16 and 17 January 2002.

119. During that meeting, the Secretariat had presented results of diagnostic testing and simulations on all relevant criteria for the identification of the least developed countries. Experts from other organizations within and outside the United Nations system made presentations on their work on vulnerability. The Expert Group reiterated the relevance of the concept of vulnerability to developing countries, and to the least developed countries in particular. It emphasized that the objectives of the work on vulnerability by different organizations were not identical, that the efforts were complementary, and that no single index would be appropriate for all purposes.

120. The main conclusions and recommendations of the Committee at its fourth session are summarized in the following sections of the present report.

B. Improving the criteria for the identification of least developed countries

121. A country must meet all the three criteria (in respect of GDP per capita, APQLI and EVI) to be added to the list. Moreover, no country with a population exceeding 75 million can be added to the list. A country must meet at least two of the three criteria to be eligible for graduation.

122. The Committee considered the most recent recommendations made by the Economic and Social Council and the points raised at the third session of the Committee for Development Policy in April 2001. It also re-examined the indicators associated with the criteria for inclusion and graduation of least developed countries to ensure that they were still the best available. At the same time, the Committee underlined that improving the criteria would be a continuous process because new and better data would always become available.

1. Countries with a large population

123. No country with a population exceeding 75 million is considered for addition to the list of least developed countries. This rule was explicitly adopted by the Council in 1991 to reflect the previously implicit notion that the category is meant to apply only to small economies. The population ceiling has also eliminated the risk that large increases in the total population of the group of least developed countries would weaken the commitment of developed countries to giving significant support to the least developed countries. The Committee recommends that, in the next triennial review in 2003, the practice of not adding countries with a large population be maintained.

124. Only one country with a large population was ever added to the list — Bangladesh, after receiving its independence. It has been the Committee's view that, since Bangladesh is already included in the list, it should be subjected to the normal graduation rule, namely, that of meeting the graduation threshold for at least two of the three criteria. At the time of the 2000 review, Bangladesh had met only one of the three criteria (EVI).

2. Gross domestic product per capita versus gross national income per capita

125. The Committee has been using the World Bank's group of low-income countries as one of the starting points for determining the list of least developed countries. It was noted that the World Bank's cut-off point for low-income countries had increased in nominal terms over time in line with inflation (for example, from $695 in 1995 to $785 in 1999) — thus remaining constant in real terms — and that the World Bank used per capita gross national income (GNI), not gross domestic product (GDP), in determining membership in the group of low-income countries. Moreover, GNI is regarded as reflecting the productive capacity of a country as adequately as GDP.

126. The Committee recommends that, for the sake of clarity and consistency, GNI per capita replace GDP per capita in the current criteria for graduation, as it already does in those for inclusion. Both for inclusion and for graduation, the triennial review would rely on GNI per capita data used in the World Bank Atlas. For potential cases of graduation, it is further recommended that the role played by remittances, external aid and other forms of income be considered with regard to their impact both on GNI figures and on domestic productive capacity. Any significant destruction of capital, including natural capital, should be considered as well, when relevant information is available.

127. The Committee was informed that the report of the Friends of the Chair of the Statistical Commission (see E/CN.3/2001/18, annex, para. 64) had urged the use of purchasing power parity (PPP)-based income per capita in cross-country analyses, whereas the Committee had been using GDP/GNI data from the World Bank Atlas methodology. The Committee noted that the PPP methodology was subject to a number of empirical limitations, and that further work needed to be done in the medium run, before a concrete proposal to employ such methodology could be formulated by the Committee. In addition, PPP-based data are not available for a number of low-income countries.

128. The Secretariat was requested by the Committee to ask the World Bank, through the United Nations Statistics Division of the Department of Economic and Social Affairs, to clarify a number of methodological issues regarding the accuracy, clarity and reliability of

its PPP methodology for replacing missing data by indirect estimates.

3. Augmented Physical Quality of Life Index (APQLI)-Human Assets Index (HAI)

129. The Augmented Physical Quality of Life Index (APQLI) is currently an average of four indicators: (a) nutrition, measured by the average daily calorie consumption per capita as a percentage of the average daily calorie requirement per capita; (b) health, measured by the under-five child mortality rate; and (c) education, measured by the combined gross primary and secondary enrolment ratio and the adult literacy rate.

130. It was noted that the term "APQLI" does not adequately reflect what this indicator is intended to capture, which is the level of human capital, not the level of well-being. It was therefore suggested that this indicator be renamed the Human Assets Index (HAI).

131. As far as the nutrition indicator is concerned, the Committee would have preferred to use the percentages of the population undernourished, but these data are not available for many countries. Hence, there was broad support for maintaining the average daily calorie consumption per capita as a percentage of the average daily calorie requirement. It was noted, however, that as part of efforts to monitor progress towards the millennium development goals, the Food and Agriculture Organization of the United Nations (FAO) is expected to improve the quality and coverage of country data on the percentage of population undernourished. Should such data become available in the near future, they could be used in the APQLI/HAI during the triennial review of 2003.

132. The Committee reiterated that life expectancy at birth is not the best available indicator of the state of health of a population, owing to data quality concerns; it also reflects changes in health and nutrition too slowly. The Committee thus supported retaining the under-five child mortality rate, for which more reliable data are available.

133. For borderline cases of graduation, other health indicators could be considered to complement the under-five child mortality rate. This is particularly relevant to countries where HIV/AIDS has significantly reduced average life expectancy. The percentage of population affected by communicable diseases could be a useful additional indicator.

134. With regard to the combined primary and secondary school enrolment ratio, the Committee was informed that, in several least developed countries, the gross primary school enrolment figure is inflated by the inclusion of repeat and/or older students in various age groups.[31] The Committee agreed that data on the average number of years of schooling of the active population or on school life expectancy as defined by the United Nations Educational, Scientific and Cultural Organization (UNESCO) would have provided better indicators; but it noted that serious data problems were still involved in terms of availability for all the developing countries. Since primary schooling is reflected in the adult literacy rate, the Committee recommends that the possibility be explored of dropping primary school enrolment from the APQLI/HAI, and focusing on the gross secondary enrolment ratio as a better indicator of the level of education.

4. Economic vulnerability index (EVI)

135. The economic vulnerability index (EVI) is currently an average of five indicators: (a) export concentration; (b) instability of export earnings; (c) instability of agricultural production; (d) share of manufacturing and modern services in GNI; and (e) population size.

136. The EVI is intended to reflect the relative risk posed to a country's development by exogenous shocks, the impact of which depends not only on the magnitude of the shocks, but also on the structural characteristics that determine the extent to which the country is affected by these shocks. The type of vulnerability to be considered in the identification of the least developed countries is structural vulnerability; the Committee does not consider vulnerability associated with government policies.

137. It was noted that the size of the population is one of the most important proxies for assessing overall economic vulnerability, since small countries tend to be more vulnerable to external shocks than large ones, because (a) their economies are usually more open to external trade and (b) their exports tend to be highly concentrated owing to their limited scope for diversification. It was also noted that small island developing States generally face structural handicaps — such as high transport costs and relative isolation from main markets — that make them particularly vulnerable to external shocks. The Committee therefore

recommends that the population size indicator be maintained as a component of the EVI.

138. The Committee also recommends, as it did in previous sessions, that the export concentration index within the formulation of the EVI be recalculated to include exports of services in addition to exports of goods.

139. The Committee revisited the issue that it had examined in 1999 and in 2000 whether a more direct measure of the economic impact of natural disasters, such as the magnitude of economic damage, or number of people affected or homeless, could be introduced into the EVI. It concluded that, when comparable data on the percentage of population made homeless by natural disasters become available and sufficiently reliable, they could be used as an additional component of the EVI. In the meantime, it was agreed that country profiles of borderline cases of graduation should include data on the economic impact of natural disasters, if relevant and reliable data are available.

5. The role of country vulnerability profiles

140. The Committee reiterated a previous Committee finding,[32] namely, that an index of economic vulnerability could give only a partial and proximate measure of the vulnerability of a country. A deeper and country-specific assessment of vulnerability is needed for cases of both addition to and graduation from the list of least developed countries. The Committee therefore recommended in 2000 that a "vulnerability profile" be prepared for each country close to the thresholds. A profile should be designed to allow a comprehensive assessment of the situation of the country and present information that reflects various dimensions of vulnerability.

141. Vulnerability profiles of Cape Verde, Maldives, Samoa and Vanuatu were prepared by the United Nations Conference on Trade and Development (UNCTAD) for the 2000 review in close cooperation with the relevant Governments. The Committee recommends that such cooperation be pursued for the country profiles to be prepared before the next triennial review (so as to allow a well-informed assessment of the situation in the countries near the thresholds of the criteria).

142. The country profiles provided in the past have been used not only as supplementary information in considering a country's position in relation to the economic vulnerability criterion, but also to inform the judgement of the Committee with regard to the overall results of the three main criteria. It is therefore recommended that in the future such country profiles should still examine aspects relevant to all three criteria.

143. The Committee also agreed that past vulnerability profiles have provided valuable insights into the vulnerabilities of these countries. However, while the Committee agreed that the vulnerability profiles should continue to focus on economic vulnerability issues, it also recommended that such profiles pay some additional attention to environmental vulnerability.

144. Such profiles ought to be prepared for all cases of potential graduation from the list of least developed countries and, to the extent practicable, for potential additions to the list, as a necessary precaution against the risk of unfounded change in a country's status as a result of data quality limitations. It is further recommended that such profiles be completed before the end of 2002, so that they may be available for the preparation of the next triennial review.

6. Technical issues

145. The Committee also reviewed several other technical issues relevant to the implementation of the criteria. The Secretariat was asked to prepare, before the next review, simulations on the impact of the following options:

(a) *Averaging*: it was suggested that a geometric average of the components or an arithmetic average of the components transformed into logarithms would capture the most severe handicaps that each country faces better than the present arithmetic average does;

(b) "*Zooming*": it was suggested that the calculation of the composite indices (according to the max-min procedure) would be more accurate if applied to a reference sample of countries smaller and more homogeneous than the 128 developing countries on the present list;[33]

(c) *Simultaneous consideration of the indices*: without there being a change in the present ways in which the three criteria are independently applied, it appeared interesting, especially for borderline cases, to simultaneously consider the criteria related to the two structural handicap indicators (HAI and EVI), or even

to the three indicators (GNI per capita, HAI and EVI), in a way that would allow the Committee to take into account some degree of compensation among the criteria and the possible combined impact of the handicaps as captured by the criteria.

C. Review of other relevant indices

146. While it was generally agreed that the criteria for the definition of the least developed countries need to be responsive to concerns related to both the destruction of natural capital and the economic and social impact of natural disasters, it was reiterated that the criteria should be focused on structural handicaps, and that environmental vulnerability should be examined only if it pertained to such handicaps.

147. Drawing on its previous work and on the work of the Expert Group which had the opportunity to examine several documents regarding other environmental and human quality indices, the Committee reaffirms that the human development index (HDI) and its components are not considered adequate for the purpose of identification of the least developed countries. The APQLI/HAI strives to capture human resource capabilities more comprehensively (with two indicators for education and two indicators for health), and the indicators chosen by the Committee are more reliable and more appropriate for the purpose of identifying the least developed countries than some components of the HDI.

148. Taking into account the examination of other indices during its first session,[34] the Committee also discussed the evolution of major environmental vulnerability indices, in the light of the request of the Economic and Social Council in its resolution 2001/43 that the Committee continue to work on the methodology for the identification of the least developed countries, where appropriate, in association with other international organizations working on environmental vulnerability issues. The Committee, in particular, examined the 2001 Environmental Sustainability Index (ESI), an initiative of the World Economic Forum. ESI scores are based on a set of 22 core indicators, each of which combines 2 to 6 variables for a total of 67 underlying variables. Since the ESI permits cross-national comparisons of the environmental situation and performance in a systematic and quantitative manner, the Committee agreed that this index could enrich the Committee's consideration of vulnerability issues.

149. However, it noted that there are several methodological problems regarding the appropriateness of various vulnerability indicators and their weighting. Particular doubts were raised about giving equal weights to the numerous variables and indicators of the ESI index. Another problem is that sufficiently reliable and comparable data for all developing countries are not yet available. Although results were presented for some 122 countries, data are still not available for many developing countries, including a third of the least developed countries. It was stressed that, as a matter of principle, all developing countries have to be examined by the Committee in determining the eligibility for least developed country status, and that the requisite data for making reliable inferences concerning the missing countries are currently not available.

150. The Committee concluded that the ESI, like other similar indices that had been examined by a previous expert group meeting in Paris in March 2000,[35] could not be used directly in its present state for the identification of the least developed countries. It recommended that at present no specific environmental vulnerability component be added to the criteria. However, it is suggested that country profiles for borderline cases of graduation should include information on environmental vulnerability insofar as such information is relevant to structural handicaps, and provided that reliable data are available.

D. The case of countries with economies in transition

151. The Committee recalled that countries with economies in transition are currently not considered for inclusion in the list of least developed countries. It was agreed that these countries should be considered according to the present criteria, and that it was not desirable to change the criteria to accommodate their specific conditions. The Committee recommends that the next triennial review in 2003 should treat low-income economies in transition in the same way as developing countries for analytical purposes.

152. It was also agreed that the triennial review in 2003 would require country profiles for borderline cases of inclusion, particularly with regard to the

human capital aspects (APQLI/HAI), because available data may not reflect the current position of these countries accurately. The disintegration of the former Union of Soviet Socialist Republics (USSR) and the former Yugoslavia caused major structural changes and significantly altered the economic potential and prospects of some of the new States. Available data may not reflect these changes accurately. Special efforts will be required if borderline cases include former Soviet or Yugoslav republics, because of these discontinuities or lack of data.

E. The case of Maldives

153. The Committee re-examined its recommendation made in the 2000 triennial review, and reiterated at its third session in 2001, that Maldives be graduated from the list of least developed countries. It recalled that the country had clearly met two of the three graduation criteria: the income criterion (GDP per capita) and the human capital criterion (APQLI). Under the last criterion (EVI), the graduation threshold had been exceeded by a small margin.

154. The Committee also recalled that the Government of Maldives had pointed out some anomalies in the estimation of the APQLI score in 2000 in particular, with regard to the nutrition and school enrolment variables (see E/2000/104, annex, enclosure). Doubts had been raised about the 118 per cent calorie intake estimate, which was regarded by national authorities as an overestimation. It was also noted that a UNDP poverty survey of 1998 had pointed to a nutritional situation "worse than that of sub-Saharan Africa". Structural handicaps relevant to the transport of goods, due to severe weather conditions and island remoteness, were deemed to be permanent factors behind this nutritional situation. In addition, the combined gross primary and secondary school enrolment ratio (92 per cent) had also been criticized by Maldivian authorities as an overestimation.

155. Following a thorough review of the Maldivian case by the Expert Group in January 2002, the Committee recommends that a new country profile be prepared by UNCTAD with a view to assessing the reliability of the figures that will be used in the 2003 review. It should also consider the implications for Maldives of the replacement of GDP per capita by GNI per capita among the criteria for both inclusion and graduation. In addition, the Committee stresses the importance of examining the implications of the graduation of Maldives from least developed country status, in the light of new and additional information from multilateral and bilateral donors.

156. The development partners of Maldives have been asked by the United Nations Secretariat and UNCTAD to provide information on their "likely response to a country's graduation from the list of least developed countries". At the time of the Committee's plenary session, the consultation was still in progress (see sect. G below).

F. Smooth transition of countries graduating from least developed country status

157. The Committee noted the request made in Economic and Social Council resolution 2001/43 for an international debate on the importance of ensuring a smooth transition from least developed country status for countries that became eligible for graduation.

158. The Committee recognized that the capacity to undergo a smooth transition may vary considerably from one graduating country to the other. This is particularly evident in the present borderline cases, which illustrate a paradox: small island least developed countries that apparently demonstrate the greatest and steadiest prosperity with regard to the income and human asset criteria are among the most structurally handicapped and/or vulnerable countries. These countries may therefore be among the least prepared to face a loss of concessionary treatment in the context of graduation.

159. The Committee thus viewed smooth transition as a principle of paramount importance to the graduating countries, insofar as these countries are likely to remain dependent, to varying degrees, on external support. The Committee noted that a smooth transition, for a graduating country, should not mean necessarily phasing out all least developed country-specific advantages. Instead, it should imply redefining the range of benefits that are desirable for the graduating country. Such a redefinition may involve, besides the loss of some benefits, the retention of other concessions, including, if deemed necessary, concessions granted for an indefinite period, and the introduction of new concessions that would be adapted

to the improved, but still fragile, economic situation of the country.

160. The Committee was of the view that, in the future, each graduation case should justify the convening, by the United Nations, of a **round-table meeting** in which development partners and the graduating country would examine the most desirable set of measures to ensure a smooth transition.

161. In this regard, the main challenge is how to make transition not only smooth but also the beginning of a dynamic process of development. Graduation should give a signal to private and public partners that a durable improvement had occurred, thereby opening new and promising economic opportunities. It was also suggested that a **meeting of experts** on the overall question of smooth transition be organized before the 2003 review of the list of least developed countries, in order to cast light on the likely treatment of graduating countries by their main bilateral and multilateral partners.

162. Finally, the Committee underlined the value of the information provided under the least developed country criteria in the context of graduation. Through these data (low income, human capital, economic vulnerability, together involving 10 socio-economic variables), it is possible to highlight with some precision the main areas of weakness that ought to be remedied in a context of smooth transition. Additional information about the remaining needs of a graduating country should, however, be made available to the donor community at the time of the definition of specific smooth transition measures.

G. Implications of graduation and effective benefits of belonging to the category

163. The Committee took note with appreciation of the responses given by some development partners of the least developed countries to an earlier call for indications on the way these development partners would deal with graduating countries in the light of the necessity for "smooth transition" measures.

164. A number of bilateral partners indicated that the context of graduation would have little, if any, impact on their treatment of graduating countries in terms of aid flows and technical assistance, because these have not been necessarily allocated on the basis of least developed country status (see annex I). Bilateral concessions for preferential market access, on the other hand, constitute an area in which the scope for a continued least developed country treatment after graduation (even for a transition period only) appears to be limited, or even non-existent, because of binding legislative commitments.

165. Multilateral and regional partners also provided mixed indications on the likelihood of being able to apply smooth transition measures for the benefit of graduating countries (see annex II). The World Trade Organization so far seems not to have any established policy for graduating countries. However, the new World Trade Organization work programme on small economies is expected to examine the particular issues relevant to the special treatment of potentially graduating World Trade Organization member States (at present only Maldives) and potentially graduating World Trade Organization observer States in the process of accession to the organization (at present Cape Verde, Samoa and Vanuatu).

166. The regional development banks that have least developed country members indicated that the notion of smooth transition for graduating countries would be generally acceptable in respect of the allocation of grants and loan resources to former least developed countries.

167. From the viewpoint of the multilateral institutions that have been providing technical assistance to least developed countries now near to graduation, a loss of least developed country status would not automatically have an impact on the ongoing cooperation.

168. For a full understanding of the implications of graduation, the Committee would like to see more empirical evidence on the benefits that graduating countries have derived from their least developed country status. The Committee recognized the existence of various gaps as regards the potential advantages that had been offered to the least developed countries by their development partners, and the benefits that the least developed countries effectively derived from their least developed country status. It noted the work of UNCTAD in carrying out a comprehensive assessment of the effective benefits on the basis of country-specific surveys, and stressed the importance of the dissemination of this work by the

time of the 2003 review of the list of least developed countries.

Chapter V
Working methods and programme of work of the Committee

169. The Committee welcomes the opportunity to contribute to the work of the Economic and Social Council and reaffirms its willingness to continue to do so in the future. The Committee remains of the view that the nature of its work is such that intersessional expert group meetings can contribute significantly to the success of its annual sessions. The recommendations of the Expert Group Meeting on the methodology for the identification of the least developed countries, for example, allowed the Committee to focus on and respond effectively to the relevant requests of Council resolution 2001/43. Such preparatory work should begin well in advance of each session, so that the Committee has all the necessary analyses at hand and is able to devote its plenary discussions to formulating objective and operational recommendations in its report to the Council.

170. In view of the outcome of the International Conference on Financing for Development and the forthcoming World Summit on Sustainable Development, the Committee feels that it could make a particular contribution in the area of global public goods and innovative financial mechanisms in the pursuit of sustainable development. The Committee agreed that, during the intersessional period, some of its members would work on the definition and elaboration of relevant sub-topics within this broad theme.

171. As requested by the Council, the present report outlines the criteria that the Committee proposes to use in the triennial review of the list of the least developed countries scheduled for 2003. This includes, as previously suggested by the Committee, reconsidering the treatment of countries with economies in transition, as well as the appropriateness of applying more restrictive principles and thresholds determining initial inclusion of countries in the list of least developed countries, as compared with those determining graduation from the list. The triennial review will include the final re-examination of the Committee's previous recommendation to graduate Maldives from the list, on the basis of the additional information requested in Council resolution 2001/43. Finally, the Committee proposes to discuss the importance of ensuring a smooth transition from least developed country status for countries that become eligible for graduation.

Chapter VI
Organization of the session

172. The fourth session of the Committee for Development Policy was held at United Nations Headquarters from 8 to 12 April 2002. Twenty-one members of the Committee attended: Ms. N'Dri Thérèse Assié-Lumumba, Ms. Lourdes Benería, Mr. Albert Binger, Mr. Olav Bjerkholt, Mr. Eugenio Figueroa B., Mr. Shangquan Gao, Mr. Leonid M. Grigoriev, Mr. Patrick Guillaumont, Mr. Ryokichi Hirono, Ms. Louka T. Katseli, Ms. Marju Lauristin, Ms. Mona Makram-Ebeid, Mr. P. Jayendra Nayak, Mr. Milivoje Panić, Mr. Eul Yong Park, Ms. Suchitra Punyaratabundhu, Mr. Delphin G. Rwegasira, Ms. Sylvia Saborio, Mr. Nasser Hassan Saidi, Mr. Udo Ernst Simonis, and Ms. Funmi Togonu-Bickersteth. Two members were unable to attend: Ms. Mari Elka Pangestu and Ms. Dorothéa Werneck. Though he had arrived in New York, Mr. Ruben Tansini had to leave on the second day of the session owing to a family emergency.

173. The officers of the Bureau serving at the fourth session were:

Chairperson:
Mr. Ryokichi Hirono

Vice-Chairperson:
Ms. Funmi Togonu-Bickersteth

Rapporteur:
Ms. Louka T. Katseli

174. The Chairman opened the session.

175. Mr. Ian Kinniburgh, Director of the Development Policy Analysis Division, emphasized the importance of the issues to be addressed by the Committee, namely, the role of health and education in the development process and the establishment of criteria for the next triennial review of the least developed countries. He drew attention to the outcome of the International Conference on Financing for

Development which had addressed issues related to both aid effectiveness and the role of human resources in the development process.

176. The Committee organized itself into three subgroups to discuss the following topics: the contribution of human resources development, including in the areas of health and education, to the process of development (theme of the 2002 high-level segment of the Economic and Social Council); the effectiveness of aid; and improving the criteria for the identification of least developed countries, including the case of Maldives. After a day of general debate on the three topics, the Committee held three days of deliberations in subgroups and discussed its draft report on the last day of the session. The report was finalized using electronic means of communications (e-mail) among members.

177. The Department of Economic and Social Affairs of the United Nations Secretariat provided substantive services for the session. The following bodies, agencies, programmes and funds of the United Nations system were represented at the session:

- Food and Agriculture Organization of the United Nations
- International Atomic Energy Agency
- United Nations Conference on Trade and Development
- United Nations Development Programme
- United Nations Educational, Scientific and Cultural Organization
- United Nations Industrial Development Organization
- United Nations Population Fund
- United Nations Relief and Works Agency for Palestine Refugees in the Near East
- Office of the Special Coordinator for Africa and the Least Developed Countries, Department of Economic and Social Affairs of the United Nations Secretariat
- Regional Commissions New York Office
- Economic Commission for Africa
- International Labour Office
- International Monetary Fund
- World Bank
- World Food Programme

Notes

[1] *The DAC Journal: Development Co-operation: 2001 Report*, vol. 3, No. 1 (2002), table 26.

[2] See, for example, New Partnership for Africa's Development (NEPAD), October 2001 (http://www.un.org/esa/africa/nepad.htm *or* http://www.un.org/esa/africa/agenda.htm), and Tokyo International Conference on African Development (TICAD I and II), 1993 and 1997 (http://www.ticad.net/index.cfm).

[3] See also *Participatory Development and Governance: Africa's Special Needs: Report of the Committee for Development Policy on the third session (2-6 April 2001)* (United Nations publication, Sales No. E.01.II.A.4).

[4] See document entitled "Independent evaluation of the implementation of the United Nations New Agenda for the Development of Africa in the 1990s" (A/AC.251/8).

[5] Data for 1999 and 2000 come from OECD, *Development Co-operation: 2001 Report* ..., p. 87, table IV-1.

[6] Ibid., table 26.

[7] See *Report of the Second United Nations Conference on the Least Developed Countries, Paris, 3-14 September 1990* (A/CONF.147/18), part one.

[8] *Development Co-operation: 2001 Report* ..., table 29.

[9] *The DAC Journal: Development Co-operation: 2000 Report*, vol. 2, No. 1 (2001), table 19; and *2001 Report*, vol. 3, No. 1 (2002), table 19.

[10] Data from UNCTAD, *The Least Developed Countries: Aid, Private Capital Flows and External Debt: The Challenge of Financing Development in the LDCs: 2000 Report* (United Nations publication, Sales No. E.00.II.D.21), part two, chap. 2, sect. C.1.

[11] Paul Collier, "Aid 'dependency': A critique", *Journal of African Economies*, vol. 8, No. 4 (1999), pp. 528-545.

[12] Robert Lensink and Oliver Morrissey, "Aid instability as a measure of uncertainty and the positive impact of aid on growth", *Journal of Development Studies*, vol. 36, No. 3 (February 2000), pp. 31-49.

[13] See Patrick Guillaumont, "Reducing poverty by aid reallocations: uncertainties and alternative assumptions", paper presented at the Europe Annual Bank Conference on Development Economics (ABCDE) Conference, Paris, June 1999; and Patrick Guillaumont and Lisa Chauvet, "Aid and performance: a reassessment", preliminary draft.

[14] In measuring the reliability of aid, both its volatility and its covariance with respect to government revenue must be taken into account. The latter is important since even if aid is less dependable than government revenue, it might nevertheless reduce the instability of resource flows if it moves inversely with revenue. However, evidence from 36 African countries over the period 1970-1995 suggests that aid is more reliable than revenue and that it therefore serves as a buffer to revenue shocks, tending to increase when revenue is low (Collier, op. cit.).

[15] *Development Co-operation: 2001 Report* ..., annex table 1. Figures for 2000 cited here are preliminary.

[16] Ibid.

[17] Rene Bonnel, "HIV AIDS: does it increase or decrease growth in Africa?", World Bank, 6 November 2000.

[18] The cost estimate of an adequate response to the pandemic globally has been put at $10 billion.

[19] See report of the Secretary-General entitled "The causes of conflict and the promotion of durable peace and sustainable development in Africa" (A/52/871-S/1998/318).

[20] See David Ellerman, *Helping People Help Themselves: Towards a Theory of Autonomy-Compatible Help*, Working Paper, No. 2693 (Washington, D.C., World Bank, October 2001), p. 2.

[21] Ibid.

[22] See, for example: New Partnership for Africa's Development (NEPAD), October 2001 (http://www.un.org/esa/africa/nepad.htm *or* http://www.un.org/esa/africa/agenda.htm) and Tokyo International Conference on African Development (TICAD I and II), 1993 and 1997 (http://www.ticad.net/index.cfm).

[23] All data on education are taken from the *World Education Report 2000* (Paris, UNESCO, 2000).

[24] *Macroeconomics and Health: Investing in Health for Economic Development*, report of the Commission on Macroeconomics and Health (Geneva, WHO, 20 December 2001).

[25] See General Assembly resolution 55/2 of 8 September 2000.

[26] Dani Rodrik, *Has Globalization Gone Too Far?* (Washington, D.C., Institute for International Economics, 1997).

[27] See Copenhagen Declaration on Social Development and Programme of Action of the World Summit for Social Development (*Report of the World Summit for Social Development, Copenhagen, 6-12 March 1995* (United Nations publication, Sales No. E.96.IV.8)), chap. I, resolution 1, annexes I and II, especially annex II, para. 88 (c).

[28] See paragraph 35 of the report of the Secretary-General (E/CN.5/2002/3) entitled "Integration of social and economic policy", submitted to the Commission for Social Development at its fortieth session (11-21 February 2002).

[29] See paragraph 41 of the Monterrey Consensus (A/CONF.198/11, chap. I, resolution 1, annex), outcome document of the International Conference on Financing for Development.

[30] See General Assembly resolution S-22/2, annex.

[31] This problem has been particularly acute in several countries including, among the least developed countries, Cape Verde, Malawi, Maldives and Samoa.

[32] See *Vulnerability and Poverty in a Global Economy: Report of the Committee for Development Policy on the first session (26-30 April 1999)* (United Nations publication, Sales No. E.99.II.A.5), para. 122.

[33] It was also suggested that the use of maximum and minimum values fixed at a normal or conventional level (independent of the sample of countries) be explored.

[34] See *Vulnerability and Poverty* ...

[35] See *Poverty amidst Riches: The Need for Change: Report of the Committee for Development Policy on the second session (3-7 April 2000)* (United Nations publication, Sales No. E.00.II.A.4), annex I.

Annex I

Likely response of bilateral development partners to a country's graduation from least developed country status

1. In resolution E/2001/43 on the report of the Committee for Development Policy, adopted by the Economic and Social Council on 24 October 2001, the Council, inter alia, called upon the relevant development partners and multilateral organizations to make available to the Committee, before its fourth session in April 2002, information on their likely response to a country's graduation from least developed country status.

2. On behalf of the Committee, the Under-Secretary-General for Economic and Social Affairs wrote a letter, dated 16 January 2002, to the Permanent Representatives to the United Nations of member States of the Organisation for Economic Cooperation and Development (OECD) requesting such information. As of 31 May 2001, the Committee's secretariat had received replies from 10 development partners: Canada, Finland, France, Germany, Italy, the Netherlands, New Zealand, Norway, the United Kingdom of Great Britain and Northern Ireland and the United States of America.[a]

3. The information obtained from those 10 development partners can be classified according to the three main types of benefits mentioned: (a) market access and other measures related to trade preferences; (b) financing for development, in particular grants and loans; and (c) technical cooperation.

Trade preferences

4. Compared with other developing countries, the least developed countries have always benefited from specific advantages under the Generalized System of Preferences (GSP) of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization. Under the GSP, a developed country can grant non-reciprocal duty concessions to imports from developing countries. Each importing country determines its own system, including product coverage and the volume of imports affected. Some developed countries, such as New Zealand, Norway and Switzerland, extend GSP benefits to all products originating from least developed countries.

5. Further benefits are now available in the context of the European Union (EU) "Everything but Arms" (EBA) initiative. This initiative eliminated quotas and duties on all products except arms from all the least developed countries, effective from March 2001, although the full liberalization of sugar, rice and bananas will be phased in during a transition period between 2006 and 2009.

6. It is evident from the above-mentioned replies that graduating countries would be excluded from trade preferences with respect to the EU market currently available under the EBA initiative. With regard to the GSP, two development partners stated that graduating countries would cease to qualify for duty-free and/or quota-free market access, although one of them indicated that a final decision on the continuation of trade preferences would be made on a case-by-case basis. Another country observed that graduating countries would be likely to lose market preferences that are extended to least developed countries. One country noted that its GSP programme provides slightly different benefits to least developed countries and non-least developed countries, but stressed that all GSP beneficiaries have to meet specific conditions, regardless of least developed country status.

Financing for development

7. Benefits in the area of finance for development tend to be based on voluntary commitments made by development partners. In the Programme of Action for the least developed countries for the 1990s,[b] all donors that had previously pledged to reach the target of 0.15 per cent of gross national income (GNI) as official development assistance (ODA) to the least developed countries restated their commitment (para. 23 (c)). In addition, donor countries that had already reached the 0.15 per cent target were invited to intensify their efforts to reach 0.20 per cent by 2000 (para. 23 (b)).

8. In the Brussels Declaration (A/CONF.191/12) adopted by the Third United Nations Conference on the Least Developed Countries, held in Brussels, Belgium, from 14 to 20 May 2001, donors agreed "to meet

expeditiously the targets of 0.15 per cent or 0.20 per cent of GNI as ODA to least developed countries as agreed (para. 8)". In addition, in the Declaration the Governments participating in the Conference undertook to improve aid effectiveness and to implement a recommendation made by member States of OECD-Development Assistance Committee (DAC) that all ODA to least developed countries should be in the form of untied aid.

9. One of the replies stressed that graduating countries would no longer be entitled to either untied aid or to the ODA targets agreed upon in the Third United Nations Conference on the least developed countries. Another country, however, stated that the decision to untie aid to least developed countries had, in effect, removed least developed country access to its tied aid programme and that, as a result, a separate least developed countries fund had been created to compensate for this loss. It also emphasized that countries graduating from least developed country status would be automatically entitled to its tied aid programme.

10. Some development partners noted that least developed country status was just one of the many factors that determined the levels of financial assistance and that graduation would have no direct effect on the provision of such assistance. Others made clear that least developed countries are not specifically recognized for bilateral development aid purposes. One country stressed that decisions on levels of ODA to graduating countries would be made on a case-by-case basis, taking into account poverty levels and environmental vulnerability. Another reply pointed out that graduating countries would continue to receive financial assistance for the promotion of private sector expansion and investment instruments.

Technical cooperation

11. Most replies made no specific reference to technical cooperation, although a few implied that graduation from the list of the least developed countries would have no impact on technical assistance.

Notes

[a] A summary of replies from multilateral organizations is contained in annex II to the present report.

[b] See *Report of the Second United Nations Conference on the Least Developed Countries, Paris, 3-14 September 1990* (A/CONF.147/18), part one.

Annex II

Benefits from multilateral organizations for the least developed countries and anticipated implications of graduation

Synopsis of information provided to the secretariat of the United Nations Conference on Trade and Development

Area of special treatment	*Special treatment granted by virtue of least developed country status*	*Theoretical impact of graduation from least developed country status*	*Willingness to apply smooth transition measures to graduating countries*
In the area of trade			
Market access			
Regardless of World Trade Organization membership	Non-reciprocal preferences in developed and developing countries (least developed country treatment under various Generalized System of Preferences (GSP) and Global System of Trade Preferences (GSTP) regimes). Reciprocal preferences in free-trade areas.	Immediate "upgrading" to the preferential treatment relevant to other developing countries (GSP/GSTP), or to most favoured nation (MFN) treatment.	Most developed countries (including members of the European Union (EU)) grant a transition period to countries graduating from the GSP, and would be prepared to consider at least a similar transition for countries graduating from least developed country treatment to normal GSP treatment or MFN treatment.
Within the World Trade Organization			
Agriculture	Exemption from the obligation to reduce barriers. Certain notifications to be submitted only every other year.	Reduction of commitments to be implemented over a period of 10 years (developing-country members). Certain annual notification requirements may be set aside, upon request, by the Committee on Agriculture.	No "smooth transition" policy exists in the World Trade Organization, but developments in this regard can be foreseen in the context of post-Doha efforts to revisit the notion of special and differential treatment, and to pay special

Area of special treatment	*Special treatment granted by virtue of least developed country status*	*Theoretical impact of graduation from least developed country status*	*Willingness to apply smooth transition measures to graduating countries*
Sanitary and phytosanitary measures	Possibility of delaying for up to five years the implementation of the provisions of the Agreement on the Application of Sanitary and Phytosanitary Measures regarding measures that affect imports.	Delay for up to two years only (developing-country members), except for measures not based on relevant international standards.	attention to the problems of small and vulnerable economies. The absence of a jurisprudence on smooth transition does not rule out the possibility that certain smooth transition decisions (especially on transition periods) might be taken on a case-by-case basis in relevant World Trade Organization committees.
Textiles and clothing	Significantly more favourable treatment of least developed countries by members that would be making use of transitional safeguards.	Differential and more favourable treatment in the fixing of economic terms, subject to volumes exported.	
Technical barriers to trade	Special consideration, on the part of other members, in respect of advising least developed countries about the preparation of technical regulations.	Other members to advise developing-country members on request.	
	Particular account to be taken of least developed country members in the provision of technical assistance.	Technical assistar to be provided by meml s to developing-country members, taking into account the stage of development of the requesting member.	
Trade-related investment measures (TRIMs)	Seven-year transitional period to eliminate TRIMs that are inconsistent with the Agreement on Trade-related Investment Measures.	Transitional period of five years only (developing-country members).	
Import licensing	Special consideration to be given to importers importing products from least developed countries in allocating non-automatic licences.	Same special consideration with respect to products from developing countries.	
Subsidies and countervailing measures	Least developed countries are exempted from prohibition on export subsidies.	Same exemption applies if the developing country has a per capita income under $1,000.	
	Prohibition on subsidies contingent upon export performance not applicable for eight years.	Same exemption for five years only.	

Area of special treatment	*Special treatment granted by virtue of least developed country status*	*Theoretical impact of graduation from least developed country status*	*Willingness to apply smooth transition measures to graduating countries*
	Phasing out of export subsidies within eight years of attaining "export competitiveness" in any given product (at least 3.25 per cent of world trade in the product for two consecutive years).	Phasing out within only two years, or eight years for some non-least developed countries (20) (annex VII of the Agreement on Subsidies and Countervailing Measures).	
Trade in services	Special priority given to least developed countries in implementing article IV of the General Agreement on Trade in Services (GATS), and "particular account" to be taken of the difficulties encountered by least developed countries in accepting negotiated commitments, owing to their particular needs.	General efforts to encourage the participation of developing-country members in trade in services (for example, through access to distribution channels, recognition of professional qualifications etc.).	
	Special consideration to least developed countries in their efforts to encourage foreign suppliers to assist in technology transfers, training and other activities for developing telecommunications.	General efforts by members to provide information to developing countries regarding telecommunication services and technological developments.	
Trade-related aspects of intellectual property rights (TRIPs)	Recognition of the special interest of least developed countries in obtaining maximum flexibility in the implementation of domestic regulations, to allow the creation of a sound technological base.	General recognition that the objectives of national systems of intellectual property protection include a development dimension.	
	Delay for up to 10 years in implementing most TRIPs obligations. Possibility of extension following duly motivated request.	General transitional arrangements for implementation of most obligations (5 or 10 years in certain cases).	

Area of special treatment	*Special treatment granted by virtue of least developed country status*	*Theoretical impact of graduation from least developed country status*	*Willingness to apply smooth transition measures to graduating countries*
	Developed-country members to provide incentives to enterprises and institutions in their territories for the purpose of encouraging technology transfers to least developed countries.		
Trade policy review mechanism	Particular attention to requests from least developed countries for technical assistance by the WTO secretariat.	General availability of the World Trade Organization secretariat for technical assistance, on request to developing-country members.	
Settlement of disputes	"Particular consideration" of the special situation of least developed country members at all stages in the determination of the causes of dispute and the dispute settlement. Members to "exercise due restraint" in raising matters involving a least developed country member, or in seeking compensation or authorization to suspend concessions to a least developed country. Director-General or Chairman of DSB may offer his good offices upon a request from a least developed country to find an acceptable solution prior to the request for a panel.	Various provisions for developing-country members (for example, if a case is brought by a developing country, the Dispute Settlement Board (DSB) must take into account the impact on the economy of this country).	
Accession to the World Trade Organization	Ongoing debate on steps that could be taken to expedite the accession of least developed countries.	The World Trade Organization secretariat would still provide, upon request, technical assistance to the Government of an acceding country that had just graduated from least developed country status.	

Area of special treatment	*Special treatment granted by virtue of least developed country status*	*Theoretical impact of graduation from least developed country status*	*Willingness to apply smooth transition measures to graduating countries*
In the area of development financing			
Regional and multilateral institutions only			
African Development Bank	Eligibility for African Development Fund (ADF) treatment is based on the World Bank's classification of countries that are deemed lacking in creditworthiness for non-concessionary financing by the World Bank (category A or International Development Association (IDA)-only countries). Some category B countries are deemed creditworthy for blend financing (ADF + ordinary capital resources).	Graduation from least developed country status is not a criterion for graduating a member from category A to category B. The Bank's graduation methodology is based on per capita GNI and creditworthiness considerations.	The Bank would give special consideration to the particular handicaps and aid dependence of a member graduating from least developed country status.
Asian Development Bank	Eligibility for Asian Development Fund (ADF-only) treatment is granted to least developed country members (as well as non-least developed countries) that have a weak debt repayment capacity. Eligibility for ADF with limited ordinary capital resources is granted to one least developed country member with a less weak debt repayment capacity.	Graduation from least developed country status of any member that is already above the Bank's per capita GNI threshold will "upgrade" the member's eligibility from ADF-only to ADF with limited ordinary capital resources (OCR) treatment if the member still demonstrates a weak debt repayment capacity, or from ADF-only to OCR with limited ADF resources if the member demonstrates a less weak debt repayment capacity.	The Bank would give special consideration to the particular handicaps and aid dependence that a member might suffer from.
Inter-American Development Bank (IADB)	Haiti, the only least developed country member of the Bank, has access to resources from the Fund for Special Operations (FSO), the soft loan window of IADB.	The question of Haiti's graduation from least developed country status or from the Bank's FSO status has not arisen within the Bank, which does not have a formal graduation policy.	Not relevant to Haiti for the time being.

Area of special treatment	*Special treatment granted by virtue of least developed country status*	*Theoretical impact of graduation from least developed country status*	*Willingness to apply smooth transition measures to graduating countries*
World Bank	Most least developed countries, as low-income countries, are eligible for IDA concessionary assistance. Temporary access to IDA treatment may also be extended to countries (including least developed countries) with a per capita income above the operational cut-off point, but with limited creditworthiness for International Bank for Reconstruction and Development (IBRD) lending. Moreover, small island economies (including some least developed countries) may be granted IDA-only treatment even though their per capita income may exceed the operational threshold.	Graduation from least developed country status is in theory irrelevant to the graduation policy of the World Bank Group.	Graduation from IDA treatment would take place well before the country had reached the IDA eligibility limit, through a blend of IDA and IBRD resources, subject to creditworthiness considerations. "Smooth transition", therefore, is built into the process of "pre-graduation" from IDA treatment, whereas smooth transition from least developed country status is envisaged as a "post-graduation" measure.
In the area of technical cooperation			
Multilateral institutions only			
Integrated framework for trade development	All least developed countries, subject to implementation modalities organized by the six sponsoring organizations (International Monetary Fund (IMF), International Trade Centre UNCTAD/WTO (ITC), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Programme (UNDP), World Bank, World Trade Organization) can have access to trade-related technical assistance under the Integrated Framework (IF).	Graduation from least developed country status would disqualify an ex-least developed country from applying for IF assistance. However, the graduation of a country where IF activities had already begun would not entail a termination of such activities.	All development partners of the least developed countries under IF would concur in organizing a "smooth transition" for any country that graduated during the implementation of a technical assistance programme under IF, with options ranging from the continuation of activities to a

Area of special treatment	*Special treatment granted by virtue of least developed country status*	*Theoretical impact of graduation from least developed country status*	*Willingness to apply smooth transition measures to graduating countries*
			gradual winding down of activities.
UNDP and other United Nations bodies and specialized agencies	All United Nations agencies normally have a special focus on least developed countries. The special treatment ranges from technical assistance opportunities to special financial contributions.	Graduation from least developed country status would in principle disqualify an ex-least developed country from receiving least developed country privileges.	United Nations agencies are unlikely to suddenly discontinue the treatment that had been granted to a least developed country prior to graduation.
	Some representatives entitled to travel to United Nations General Assembly meetings with expenses paid through regular budget.	Graduation from least developed country status would in principle disqualify an ex-least developed country from receiving least developed country treatment.	
	Entitled to a maximum assessment rate of 0.01 per cent of the expenses of the United Nations for the period 2001-2003.	Graduation from least developed country status would in principle disqualify an ex-least developed country from receiving least developed country treatment.	
	Entitled to 90 per cent discount on contribution to peacekeeping operations.	Graduation from least developed country status would in principle disqualify án ex-least developed country from receiving least developed country treatment.	

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